



ESCP-EUROPE and CLSBE

Value Creation for Emerging Acquirers in Other Emerging Economies: A Comparison with Developed Market Firms

Maria Teresa Fernandes Guimarães Lobato

ESCP-103399 and CLSBE-152110032

Research Advisor: Professor Pramuan Bunkanwanicha

Master Thesis submitted at ESCP Europe, 79 Avenue de la République, 75011 Paris

Abstract

Over the past few years, emerging markets have been reinforcing their presence in the worldwide M&A activity. In fact, emerging acquirers are now targeting companies in order to tap into their fast economic growth and increasingly wealthy populations. As a consequence, we have to ask: Do cross-border acquisitions in emerging markets create positive and significant returns to their emerging acquirers? Are these higher than those of developed countries? We perform an event study on 657 deals involving emerging acquirers between 2002 and 2011 and compare with 1936 deals performed by developed country firms both in emerging markets. We find that emerging acquirers earn significantly higher returns than developed markets especially in the case of acquisition of control. Lastly, emerging companies of smaller size, who finance their transactions with cash and acquire control of the target, are more likely to incur higher value creation.

Keywords: Cross-border acquisitions, emerging markets, event study, value creation and M&A

Paris, 9th May 201

Résumé

Au cours des dernières années, les marchés émergents ont renforcés leur présence mondiale dans l'activité des fusions et acquisitions. En effet, aujourd'hui, les acquéreurs émergents sont entrain d'acquérir des entreprises dans d'autres pays émergents afin de profiter de leur croissance économique et de leurs populations de plus en plus riches. En conséquence nous devons nous demander : Est-ce-que les acquisitions transfrontalières dans les marchés émergents créent des rendements positifs et significatifs à des acquéreurs émergents? Sont-ils plus élevés que ceux des pays développés? Nous avons réalisé une étude d'événement sur 657 transactions impliquant des acquéreurs émergents entre 2002 et 2011 et on les compare avec 1936 transactions réalisées par des entreprises des pays développés tout deux ciblant des pays émergents. Nous constatons que les acquéreurs émergents obtiennent des rendements nettement plus élevés que les marchés développés notamment dans le cas d'acquisition du contrôle. Dernièrement, les entreprises émergentes de plus petite taille, qui financent leurs opérations avec de l'argent et acquièrent le contrôle de leur cible, sont plus susceptibles d'avoir une création de valeur plus significative.

Mots-clés: Acquisitions transfrontalières, marchés émergents, étude d'événements, création de valeur et fusion-acquisitions

Resumo

Ao longo dos últimos anos, os mercados emergentes têm vindo a reforçar a sua presença na actividade das fusões e aquisições a nível mundial. Na verdade, nos dias de hoje os adquirentes emergentes estão direccionados para empresas do seu tipo de mercados com o intuito de tirar partido do seu rápido crescimento econômico e de populações cada vez mais ricas. Consequentemente temos de nos questionar: Será que adquirentes de países emergentes têm retornos significativamente positivos em aquisições noutros mercados emergentes? Serão estes superiores aos retornos de países desenvolvidos? Realizámos um “event study” em 657 transacções envolvendo adquirentes emergentes entre 2002 e 2011 e comparámos com 1936 transacções realizadas por empresas de países desenvolvidos, ambas em mercados emergentes. Concluimos que os adquirentes emergentes obtêm retornos significativamente superiores aos que são obtidos por empresas de mercados desenvolvidos especialmente no caso da aquisição de controlo. Por último, as empresas mais pequenas, que financiam as suas operações com dinheiro e adquirem o controlo da empresa comprada, são mais propensos a incorrer uma maior criação de valor.

Palavras Chave: Aquisições transfronteiriças, mercados emergentes, estudos de eventos, criação de valor, fusões e aquisições

TABLE OF CONTENTS

1. Introduction	6
2. Literature Review	8
2.1. Cross-border acquisitions: A general perspective	8
2.2. Emerging Markets.....	9
2.3. Developed economies	10
2.4. Stock price returns and market efficiency	11
2.5. Abnormal Returns in cross-border acquisitions.....	12
2.5.1. Classical factors influencing abnormal returns	12
2.5.2. Neo-classical factors explaining abnormal returns.....	16
3. Research question and hypotheses	22
3.1. Main hypotheses	22
3.2. Secondary hypotheses	23
3.2.1. Classical hypotheses	23
3.2.2. Neoclassical hypotheses	25
4. Data sampling considerations.....	26
4.1 Data screens performed	27
4.2 Sample characteristics.....	27
5. Methodology of event studies: cumulative abnormal returns (CARs).....	33
5.1. Computing the CARs - in theory	33
5.2. Computing the CARs - in practice.....	34
6. Results and Discussion.....	37
6.1. Main hypotheses' findings and results.....	37
6.2. The Impact of Majority Control.....	39
6.3. Multivariate Regressions	41
6.4. Sources of Value Creation for Emerging Market Firms.....	45
7. Limitations and further research.....	49

7.1. Limitations	49
7.2. Further Research	50
8. Managerial Implications	52
9. Conclusion.....	54
10. Bibliography.....	56
11. Appendix	62

TABLE OF FIGURES

Figure 1: Total cross-border M&A deals by firms from advanced economies and emerging market economies, 1997–2010 (World Bank 2011)	9
Figure 2. Volume of announced transactions per year (number)	29
Figure 3. Sample cleaning-up stages	32
Figure 4. Event study timeline.....	36
Figure 5. Abnormal Returns of acquisitions in Emerging Markets.....	62
Figure 6. Volume of the total deals per year of announcement (Full Sample)	62
Figure 7. Break-down of Deals involving Developed Market Acquirers by number of deals per nation.....	63
Figure 8. Break-down of Deals involving Emerging Market Acquirers by number of deals per nation.....	63
Figure 9. Break-down of Deals involving Emerging Market Targets by number of deals per nation	63

TABLE OF TABLES

Table 1. Acquirer and Target Countries featured in the sample.....	28
Table 2. Distribution of Top 10 Acquirer Nations (EM & DM)	29
Table 3. Distribution of Top 10 Target Nations (EM)	30
Table 4. Summary Statistics for firm and deal specificities	31
Table 5. Emerging and Developed market acquirers: T-test, sign-test, Wilcoxon rank-sum (Mann-Whitney) test and univariate regression.....	37
Table 6. Summary statistics for the variable "Acquisition of Control"	39

Table 7. Emerging and Developed market acquirers considering "Acquisition of control"	40
Table 8. Multivariate Regression coefficients, and statistics for EM and Majority Control.....	44
Table 9. Multivariate Regression coefficients and statistics for the EM-EM sample	45
Table 10. Summary statistics for the variable "Majority Control" for Emerging Market Acquirers	46
Table 11. Correlation of explanatory and control variables for the Full Sample	64
Table 12. Correlation of explanatory and control variables Emerging Markets Sample	64
Table 13. Summary statistics for the variable "Cash Percentage"	65
Table 14. Summary statistics for the variable "Acquirer Market Capitalization"	65
Table 15. Summary statistics for the variable "Deal Value"	66
Table 16. Summary statistics for the variable "Common Law Acquirer" for Emerging Market Acquirers.....	66
Table 17. Summary statistics for the variable "Year Periods" for Emerging Market Acquirers	67
Table 18. Summary statistics for the variable "Diversification" for Emerging Market Acquirers	67
Table 19. Summary statistics for the variable "Public Target" for Emerging Market Acquirers	68

1. INTRODUCTION

In recent years, corporate mergers and acquisitions have proved their increasingly significant role in the World Economy. Between 2000 and 2010, the volume of worldwide merger and acquisitions has always been greater than 1.2 trillion USD and averaged 2.5 trillion USD over the period (Thomson Reuters, 2011). According to A. T. Kearney (2008), “Beginning in 2002 deals between developing and developed countries grew at an annual rate of 19 percent – far in excess of the industry averages”, this shows the increasing presence of emerging markets in an activity fully dominated by developed economies in the past. Interestingly, while in 2005 only 47 emerging economies’ firms were included in the Forbes 500 ranking in 2010 this number already amounted to 95.

Emerging markets have been defined as those developing economies having high economic potential and international engagement (World Bank 2011). Cross-border acquisitions (CBAs) among emerging markets (EM) are a recent phenomenon as until the 1990s many of these countries were still had undeveloped capital markets. As liberalization processes were implemented many economic and trade reforms were performed at the national level. As a consequence, one of the most common motives behind M&A transactions involving only emerging markets is to seek growth and overcome the latecomer disadvantage when compared to developed market (DM) firms by tapping into other markets with fast economic growth and increasingly wealthy populations. This leads us to as several questions about their performance: Do cross-border acquisitions in emerging markets create positive and significant returns to their emerging acquirers? Are these higher than the ones of developed country firms? In this paper we will take a deeper look at these issues through the analysis of stock market reactions to the announcement of cross-border acquisitions performed by emerging market firms in other emerging economies.

As a consequence of a significant increase in interest in emerging economies several authors have started to perform researches in this field. Bhagat, Malhotra and Zhu (2011) have found that emerging market acquirers have positive cumulative abnormal returns of 1.72% for a three-day event window at a 1% significance level when performing acquisitions in both emerging and developed markets. Additionally, (Chari, Ouimet and Tesar 2010) have found that developed market acquirers have

higher performance than emerging market firms in emerging markets. Nevertheless, one has to point out that these authors do not make a distinction between cross-border and domestic acquisitions. However, in order to properly compare the performance of emerging market firms in emerging markets they need to be in the same conditions as developed market acquirers (cross-border acquisitions). Furthermore, we also have to consider the success factors that are determinant and specific to emerging market targets.

Our study helps to fill this gap by providing a study focusing on the value created by emerging acquirers stemming from cross-border acquisitions in other emerging economies. For this we have performed an event studies test and analyzed the stock price reaction to 657 deals performed by emerging market countries between 2002 and 2011 and compared them against another 1936 deals performed by developed economies.

We find that acquisitions involving emerging market acquirers have significantly higher returns than those performed by developed market firms. More specifically, emerging market acquirers incur higher positive returns than developed market acquirers, amounting to an average of 0.3% which is statistically significant for a confidence level of 10%. The acquisition of control further reinforces our findings as in this case the difference between emerging and developed acquirers reaches a value of 0.49% and becomes statistically significant for a confidence interval of 95%. Thus, after performing an empirical research on our sample, we may infer that acquisitions performed by emerging market firms do create value for shareholders. In fact, this value tends to be higher than the returns obtained by developed country firms.

The remainder of this paper is divided into 8 sections. The first part gathers the existing literature on emerging market cross-border acquisitions. In a second section we have included our hypothesis and main questions to be answered by this thesis. In a third part we have indicated our data sampling considerations and the different filters applied. In our fourth section we describe the methodology to be followed. In a fifth part we report our main findings and conclusions which are then followed by section six providing its limitations and grounds for further research. A seventh section describes the managerial implications that may be withdrawn from this research and last but not least we include a summary of our main findings and final remarks.

2. LITERATURE REVIEW

The volume of cross-border acquisitions has been increasing much faster in the last 20 years than the volume of domestic acquisitions with the growth of the former being almost three times higher than the latter (Mantecon 2009). This results from the need of companies to constantly pursue new opportunities in order to face economic development and increased competition while struggling to maintain their position in the market (Morrow, et al. 2007). Indeed, it is important to note that CBAs are a fast and easy way for companies to expand internationally (Nadolska and Barkema 2007, Collins, et al. 2009).

M&A activity across developed countries has long played a substantial role in the economic and financial debate. However, CBAs as a mode of entry in emerging economies are a fairly recent event. In fact, since the beginning of the 1990s, emerging market firms have been increasing their CBAs as a consequence of the liberalization of their economies, the globalization of industries, the increase in competition intensity, and the better access to capital markets (Karnani 2010). Nonetheless, it is surprising to observe how little we know about the returns on cross-border acquisitions in emerging markets.

Although some research has been performed in this field, the difference in returns to acquirer firms in emerging markets depending on whether their home country is a developed or an emerging economy remains unclear.

In this section we will start by looking at the trend observed in cross-border acquisitions and their importance in emerging economies. Following this, we will analyze the stock price returns as indicators of performance in acquisitions. Last but not least, we will investigate the meaning and possible explanations of abnormal returns in cross-border acquisitions.

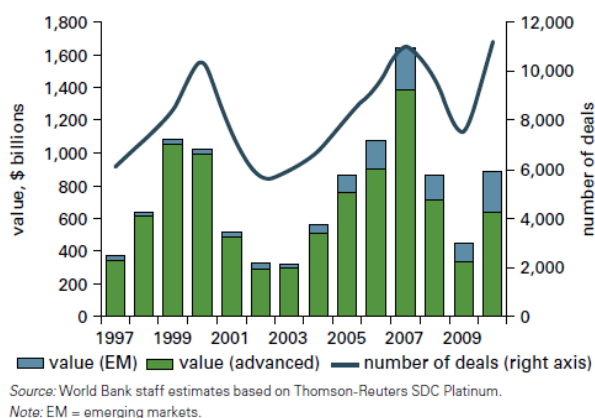
2.1. CROSS-BORDER ACQUISITIONS: A GENERAL PERSPECTIVE

The entry in international trade markets can be done in many different ways. Cross-border investments may take the form of greenfield investments, cross-border acquisitions/mergers, joint ventures or alliance partnerships, partnerships with firms that

are not from the host country but have already settled their operations, or a mix of all the options mentioned (Collins, et al. 2009).

According to the World Bank (2011), many changes in international trade flows around the world have been introduced after observing the market liberalization and deregulation of many developing economies in the 1990s. Specifically, CBAs from emerging market firms have been the subject of an exponential increase. Even if emerging market firms only had a share of 4% of the world total value of CBAs in the 1997-2003 period, this entity states that, in the years between 2004 and 2010, this value increased to a significant share of 17%.

Figure 1: Total cross-border M&A deals by firms from advanced economies and emerging market economies, 1997–2010 (World Bank 2011)



Additionally, out of the 11.113 CBAs announced at the world level in 2010, 5.623 involved emerging market companies either as targets or as acquirers (World Bank 2011). This reinforces the existence of a trend of increasingly pronounced M&A activity of emerging countries and their determination in establishing their position in today’s economy. We no longer live in a polar global economy with advanced economies in command but rather in a multi-polar one where emerging economies also play a significant role.

2.2. EMERGING MARKETS

The term “Emerging Markets” has been around for more than thirty years. Its creation was the result of an observed negative connotation associated with “third world countries”; while the latter suggests a situation of stagnation the former sounds more

positive and stimulating (The Economist 2008). Antoine van Agtmael, a member of the World Bank's International Financial Corporation (IFC), was the first to set the definition of Emerging markets in light of economics and levels of wealth (Financial Times 2006). The World Bank uses the Gross Domestic Product (GDP) per capita in order to classify countries in three income boundaries.

For the purpose of this research and according to the World Bank (2011) we shall consider emerging market economies as those developing countries having high economic potential and international engagement. Considering a classification by region, these economies are:

1. **Africa:** Egypt, Ghana, Kenya, Morocco, Nigeria and South Africa.
2. **Asia:** Azerbaijan, China, India, Indonesia, Kazakhstan, Malaysia, Mongolia, Pakistan, Philippines, Singapore, South Korea, Sri Lanka, Thailand and Vietnam.
3. **Europe:** Belarus, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Romania, Russian Federation, Turkey, Ukraine and Poland.
4. **Central and South America:** Argentina, The Bahamas, Barbados, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Jamaica, Mexico, Panama, Peru, Trinidad and Tobago, Uruguay and Venezuela.
5. **Middle East:** Bahrain, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia and United Arab Emirates.

Although increasing exponentially in number over the past few years, cross-border acquisitions involving acquirers from emerging markets are still the object of little research. Nevertheless, there have been recent developments in this field and according to Bhagat, Malhotra and Zhu (2011), emerging market acquirers have positive cumulative abnormal returns of 1.72% for a three-day event window at a 1% significance level when performing acquisitions in both emerging and developed markets.

2.3. DEVELOPED ECONOMIES

Although the focus of this paper is mainly set on emerging markets, it is important to address the definition of developed economies that will be followed. More

specifically, advanced economies are defined as those that have “traditionally been identified as industrialized nations” (World Bank 2011): Austria, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, Norway, New Zealand, Portugal, Spain, Sweden, Switzerland, United Kingdom and the United States of America.

Developed economies’ CBAs into emerging countries have been the object of many studies in the past. Several authors such as Chari, Ouimet and Tesar (2010), among others, have in fact agreed that even if abnormal returns may be of small value they entail a significant return to developed market acquirers.

2.4. STOCK PRICE RETURNS AND MARKET EFFICIENCY

According to the neoclassical theory, as individuals maximize utility, firms maximize profits by using all available information and production resources in order to make rational choices. As a consequence, companies will only decide to acquire other firms if, in their view, this acquisition will create value and thus have positive returns.

Furthermore, in order for acquisitions to take place in the market there is a need for investors to believe that stock prices observed do indeed translate the real value of the company. Therefore, “a fundamental premise underlying the market for corporate control is the existence of a high positive correlation between corporate managerial efficiency and the market price of shares of that company” (Manne 1965).

Beechey, Gruen and Vickery (2000), who quoted Fama (1970), agree that the main role of the financial stock market is to allocate ownership among individual investors and firms. As a consequence, an efficient market creates the necessary conditions for effective production-investment decisions which can be performed under the assumption that stock prices fully reflect all available information. This follows the logic of the random walk principle stating that “if the flow of information is unimpeded and information is immediately reflected in stock prices, then tomorrow's price change will reflect only tomorrow's news and will be independent of the price changes today (Malkiel 2003)”.

Most importantly, the idea that stock prices follow a random walk is core in the methodology to be followed in this paper. It is the belief in this principle that will allow

us to assume that the changes in stock price over the event window around the announcement of the acquisition are only the result of this new stream of information.

2.5. ABNORMAL RETURNS IN CROSS-BORDER ACQUISITIONS

Many researchers argue that cross-border acquisitions do in fact create positive value for the acquirer (Doukas and Travlos 1988, Doukas 1995, Kiyamaz 2004, R. La Porta, F. Lopez-de-Silanes, et al. 2000). However, this is a long standing debate, and several other experts state that cross-border acquisitions actually decrease the acquirer's value (Denis, Denis and Yost 2002, Moeller and Schlingemann 2005). Nevertheless, many changes have been observed in the past few years and turned this debate into a more interesting one.

2.5.1. CLASSICAL FACTORS INFLUENCING ABNORMAL RETURNS

In the past, research on the positive and negative abnormal returns from acquisitions mainly focused on firm-related factors. As cross-border acquisitions start to coin their significance in the world economy a more macroeconomic view which considers the factors at the country level is also being used. Nevertheless, classical factors based on the thought of value creation and wealth transfer at the time of the transaction are still relevant.

2.5.1.1. Size of the acquirer

Many authors have agreed that bidder returns and size have an inverse correlation. To be more precise, the larger the acquirer the lower the relative returns earned at the time of announcement (Asquith, Bruner and Mullins Jr. 1983, Moeller, Schlingemann and Stulz 2004, Bhagat, Dong, et al. 2005). Furthermore, it has also been proved that large acquirers are more prone to overpay for their targets (Bhagat, Malhotra and Zhu 2011).

Under a different perspective, Hishleifer, Richardson and Teoh (2006) have argued that firms with higher valuations have lower returns at the time of the announcement. Their common decision of paying in equity will signal the market that this higher valuation is not due to a higher level of assets which will impose a downward pressure on the stock-price. Still, Moeller, Schlingemann and Stulz (2004) disagreed as they point out that markets value the firm's equity disregarding its book value of assets. This

lack of correlation implies that valuation is not connected to the value of the firm's fundamentals.

It is important to note two sources of bias as the lack of their consideration may have lead to erroneous conclusions in the past. If the target is too small compared to the acquirer, the evaluation of the acquisition may have little or no effect on the acquirer's stock (Fuller, Netter and Stegemoller 2002). Furthermore, acquisitions performed by smaller companies do have higher relative levels of return. However, these translate into lower dollar gains than those performed by larger firms with lower relative gains (Moeller, Schlingemann and Stulz 2004).

2.5.1.2. Payment method

Methods of payment in acquisitions and their impact on returns have been the object of many studies in financial research. Moreover, Eckbo e Thorburn (2000) have concluded in their study that all cash-offers have an increase in the price of the stock of on average 3.11% over the event month.

However, funding the transaction with equity is not so unusual. Still in this case firms should consider two separate actions involved in the transaction that many times are not dissociated properly: the equity issue and the acquisition. The Equity issue, an independent event, is likely to face a negative reaction from investors as it is signaling the market that the acquirer's stock is overvalued (Moeller, Schlingemann and Stulz 2004). This will decrease demand for the stock and thus decrease its price. Therefore, one has to bear in mind that the evolution of the acquirer's stock price at the time of the announcement will be a consequence of both operations; the equity issue and the belief in the success of the acquisition (Andrade, Mitchell and Stafford 2001). To be more specific, even if the acquisition would have positive abnormal return, the negative effects of the equity issue might outweigh other positive effects.

2.5.1.3. Diversification

Firms can acquire other companies as a mean of diversifying their business and hence reduce the volatility of their cash-flows by reducing the correlation of their operations (Bhagat, Malhotra and Zhu 2011). In spite of this possible source of positive abnormal returns, the attempt of diversification can create a distorted perception in the market. Many researchers have argued that before making acquisitions, firms will try to

find attractive opportunities of investment in order to obtain organic growth. Only when these are exhausted, the company will look for outside growth prospects. As a consequence, CBAs might signal the market that the companies' opportunities are exhausted, which may lead to a negative reaction from investors (McCardle and Vishwanathan 1994, Jovanovic and Braguinsky 2004).

In addition there are two other types of CBAs, these horizontal or vertical depending on the objectives that trigger the existence of the transaction (UNCTAD 2000). Many researchers have scrutinized these two types of CBAs and have reached a consensus on its relevance in the explanation of abnormal returns (Morck, Sleifer and Vishny 1990, Macquieira, Megginson and Nail 1998, Moeller, Schlingemann and Stulz 2004, Karnani 2010). Horizontal CBAs usually take place between two companies who compete in the same industry and allow the acquirer to benefit from synergies arising from operational gains due to economies of scale as well as an increase in market power. Vertical CBAs happen between companies and their respective suppliers. This form of integration intends to reduce the uncertainty of transaction costs faced while providing gains from economies of scope.

Need for strategic assets

This factor is especially significant when considering emerging economies as their companies often engage in CBAs due their need to acquire specific critical resources in advanced technology, managerial expertise but also gain access to consumers in key international markets. Companies also engage in cross-border acquisitions in order to avoid domestic institutional and market constraints (Luo and Tung 2007). Moreover, this strategy will enable them to overcome their latecomer disadvantage while providing the competitive advantage needed to be able to compete more efficiently against global large players and earn abnormal profits (Karnani 2010, Guillén e García-Canal 2009).

2.5.1.4. Transaction Value: Overpayment

Past research has explicitly proven that the higher the transaction value, the lower the acquirer returns (Bhagat, Malhotra and Zhu 2011, Bayazitiva, Kahl and Valkanov 2012). More importantly, overpaying represents a negative wealth transfer from the acquirer to the target and thus will have a negative impact on the acquirer's stock price (Karnani 2010). Interestingly, developing country firms tend to bid higher when

acquiring firms from advanced economies, their bid premiums reflect the existence of a so-called national pride. In contrast to this behavior, emerging country firms do not necessarily bid higher than advanced economy ones, when acquiring firms in developing countries (Hope, Thomas and Vyas 2011).

2.5.1.5. Better use of target's assets

Corporate assets should be used in the most efficient way. M&A helps reaching this optimal level by reallocating resources and control among companies (Rossi and Volpin 2004). Global diversification allows firms to benefit from better production, marketing and management skills and from more flexible responses to different institutional differences (Denis, Denis and Yost 2002). Past research has agreed that the operating cash-flows of the new legal identity formed improve after the transaction, especially when compared to industry peers (Healy, Palepu and Ruback 1992, Andrade, Mitchell and Stafford 2001). This reflects the belief that production will be used more efficiently and better investment strategy decisions will be made by the acquirer's management (Bhagat, Malhotra and Zhu 2011).

Although acknowledging that abnormal returns at announcement reflect expectations on the value of improved cash-flows deriving from increased efficiency gains, Andrade et al. (2001) have also expressed some challenges to this theory. First, the authors state that there is still no reliable method that will measure the efficiency-gains in the long-term, that is in a post-merger situation. Second, noise problems are still very obvious since no consensus has been reached on the determinants of returns to the acquirers. Lastly, the authors also state the importance of different motivations on the results of the transaction. More specifically, only mergers focusing on good objectives such as synergies or economies of scope will have positive returns.

2.5.1.6. Reduction in tax liability

In a first stance, it is possible that the new identity formed by the two companies will have to perform less tax payments than if the two the firms were two independent legal units. (Bhagat, Malhotra and Zhu 2011)

In a second stance, emerging market firms may decide to bid firms in foreign markets as a means of implementing a reverse investment strategy. They may acquire the company and later use this unit to invest in the home country while receiving tax

breaks and other financial benefits as well as non-financial advantages such as the access to scarce resources or regulatory support (Luo and Tung 2007).

2.5.1.7. Empire-building behavior: A cause for negative returns

Free cash flows should be used to pay shareholders rather than to engage in acquisitions (Jensen 1986). This may be true in shareholders' belief, but the owner-principal agency problem is evident and many managers keep on having an empire building behavior in detriment of value creation. Power, compensation, prestige and the decrease in the risk of unemployment are among the many personal gains to managers from entering an acquisition strategy and thus gaining control over a larger amount of resources (Hope, Thomas and Vyas 2011).

Empire building behavior faces higher costs in emerging countries due to their weaker institutional structure (Jirapon, et al. 2006) and the lower accountability of managers to their shareholders (Hope and Thomas 2008). Furthermore, managers from these economies not only have more corporate governance freedom to install these empires, but they also have higher incentives that go beyond the firm level; it is about building an empire for their country (Hope, Thomas and Vyas 2011).

2.5.1.8. Private vs. Public targets

Research performed by Capron and Shen (2007) states that acquirers tend to buy public targets when entering new business segments and in acquisitions in intangible capital intensive industries. The latter tend to have a more reduced risk. They also conclude that private firms will provide for higher abnormal returns. One of the reasons behind this may be that the lack of information existing on private targets allows for more possibilities of exploitation by the acquirers in order to earn higher positive abnormal returns. From this we can understand that asymmetry of information on targets is indeed a double-edged sword. Equity markets are often used as screening devices, as public firms have to release information on their financials in a more credible form there is less room for abnormal returns to the acquirer.

2.5.2. NEO-CLASSICAL FACTORS EXPLAINING ABNORMAL RETURNS

More recently, research has tried to find explanations for abnormal returns of cross-border acquisitions in neo-classical factors such as corporate governance. The latter has

been defined as the institutional and market-based structures that will induce managers to make decisions with the goal of maximizing the value for the company's shareholders (Denis and McConnell 2003).

Although acknowledging the importance of company specific differences within a country such as antitakeover provisions, manager director compensation policies, board structure and board governance policies (Bhagat, Malhotra and Zhu 2011), inter-country discrepancies play a more prominent role in understanding abnormal returns (Doidge, Karolyi and Stulz 2007).

The confidence in the financial market's legal system is one of the main factors for an investor to consider when making the decision of whether to invest in a foreign country or not (Beim and Calomiris 2001). More specifically, cross-border transactions find its dependence on the structure of the country in four ways: regulatory, financial, economic, and cultural.

2.5.2.1. Regulatory: Majority control

Property rights define who is entitled to own property in a country and the rights given from detaining ownership. The lack of such protection in emerging economies has generated a situation where the loss of control may be so costly that investors are not willing to become minority shareholders out of fear of being expropriated (R. La Porta, F. Lopez-de-Silanes and A. Shleifer, et al. 1998, Dyck and Zingales 2004). This created an ownership concentration that may not allow foreign country firms to enter the market through CBAs (La Porta, Lopez-de-Silanes e Shleifer 1999). However, if they do enter the country the lack of contract enforcement requires foreign acquirers to have majority control (Hart 1995). This is especially significant in R&D intensive industries (Chari, Ouimet and Tesar 2006).

Looking at these legal considerations, it is understandable that over fifty percent of East Asian companies are family controlled (Claessens, Djankov and Lang 2000). According to Bertrand and Schoar (2006), this is mainly explained by weak legal structures and the role family trust plays as a second-best substitute for the missing governance and contractual enforcement. Indeed, only a very small number of families control most of East Asian Corporations, this enhances their power and allows them to exercise pressure on the government and impact the country's economic policies. Two

good examples of this extensive power are the Suharto family in Indonesia and the Imelda-Marcos family in the Philippines. These families have had extensive influence on “anti-monopoly law and commercial law, in addition to trade and foreign currency management policies, macro financial policies, contracting process of public investment and expenditure” (Hanazaki e Liu 2007). This has a tremendous impact on foreign investors as it leaves an inequitable advantage for domestic companies. Although progress has been made, these countries still have a long way to go to fully reach the liberalization of their financial markets.

In addition, Rossi and Volpin (2004) have done extensive research in the determinants of CBAs and have reached the conclusion that an increase in investor protection imposed on the target by a cross-border transaction will be a crucial driver of positive abnormal returns, especially when the host country is an emerging market. However, they have also found that in countries with higher investor protection, CBAs become less common with investors preferring domestic mergers and acquisitions or even hostile takeovers. Moreover, the authors also prove that in countries with higher investor protection companies tend to pay more frequently with stock and pay higher premiums for control. Investors attribute higher value to stocks with better legal protection; they incur less risks of being expropriated and are willing to pay a premium for it. As the stock price grows, market-debt funding is more efficient and financial markets develop which in turn benefits the country (R. La Porta, F. Lopez-de-Silanes, et al. 2000). However, one has to bear in mind that this protection increases transaction costs and reduces possible gains from better corporate governance. Firms may look for other countries which are weaker in terms of legal protection in order to earn higher benefits. This may explain the higher flow of CBAs from developed to emerging economies in the past few years (Martynova and Renneboog 2008).

Access of companies to capital markets

Specificities of emerging markets include the instability of the currency exchange therefore increasing the risk of the investor. Despite, high inflation pressures deriving from high GDP growth, governments seem to be unwilling to control it by implementing the needed monetary policies. Moreover, there are considerable problems when referring to the banking system more specifically in the lending business. These countries tend to have policies of connected lending where credit is given based on the

connections possessed by the individual rather than in the consideration of the foreseen project or financial backgrounds. This is especially pertinent in the case of India. Finally, levels of information asymmetry tend to be higher in these environments. Screening and monitoring are especially hard to perform when majority is not detained which again enforces the market for corporate control as a means of survival.

In this case we have to ask why the targets would agree to concede majority to foreign investors. The main reason lies in the need to access financing. This is especially significant in capital-scarce emerging markets. In the past, firms that would be able to concede this access were developed economy firms (Chari, Ouimet e Tesar, *Acquirer Gains in Emerging Markets* 2009). Even though this trend is changing, liquidity constraints from the target increase the bargaining power of the acquirer which in turn pressures down the acquisition price, therefore allowing for higher positive abnormal returns.

2.5.2.2. Regulatory: Judicial system and its enforcement

Abnormal returns on cross-border acquisitions can partly be explained by the differences on corporate governance regulation faced by firms in different countries. There is a positive correlation between acquirer returns and targets from English legal origin judiciary systems. Contrarily, there is a negative correlation between acquirer returns and targets from French legal origin systems (R. La Porta, F. Lopez-de-Silanes and A. Shleifer, et al. 1998). This is mainly due to the fact that English origin countries are traditionally common law countries. These are known to have higher private and public enforcement (La Porta, Lopez-de-Silanes and Shleifer 2006). However, a compensation for this lack of protection may be performed through measures such as mandatory dividends and ownership concentration. This issue can be very prominent as there is a positive relation between investor protection and valuation of firms across countries (R. La Porta, F. Lopez-de-Silanes and A. Shleifer, et al. 1999). The authors have tried to coin the mindset that law does matter, but have faced some disagreement from other researchers who either disagree with the construction of a protection measure as a whole or just give alternative justifications for why common law systems are usually the ones that are more financially developed.

The bootstrapping hypothesis

Martynova and Renneboog (2008), have acknowledged the presence of a spillover valuation effect derived from the need of the target to abide to corporate governance regulations of the acquirer. Being in line with other authors' research, Chari et al. (2006) prove that if the bidder has better corporate governance than the target then the prediction of an improvement of the target's governance will drive abnormal returns up; it is perceived as value creation.

On the other hand, if the bidder has lower corporate governance we would expect to observe a reduction in the abnormal returns of the acquirer as a consequence of the decrease in corporate governance of the target. However, this has not yet been confirmed, there is no significant evidence that the acquirer's lower governance will reduce the target or the bidder's returns. Martynova and Renneboog (2008) have also set an alternative hypothesis which explores the possibility of the acquirer voluntarily bootstrapping his corporate levels to those of his target and thus allowing the firm to reach an optimal investor protection level and higher abnormal returns. In fact, this hypothesis is confirmed by acquirers from emerging economies. Bhagat, Malhotra and Zhu (2011), have proved that the better the corporate governance in the target's country the higher the returns to the acquirer.

Nevertheless, on average the home country tends to have higher investor protection than the host country, thus CBAs are helping in converging corporate governance standards across borders (Rossi and Volpin 2004).

2.5.2.3. Cultural

One more issue to consider in CBAs is the cultural challenges to be faced in the post-acquisition and in the pre-transaction period. The impact of the differences in culture arises not only from institutional discrepancies but also from cultural distance (Karnani 2010). In his study on cross-border acquisitions, Mantecon (2009), states that there are several reasons for firms to face higher uncertainty levels in these transactions when compared to domestic acquisitions. Cultural differences affecting the way of doing business and might create difficulties in the integration of the target's assets into the acquirer's structure. This may create a resistance from the target which will create uncertainty and thus will increase the potential time of the takeover process creating a

larger amount of noise on the market's reaction to the acquisition announcement (Fuller, Netter and Stegemoller 2002).

2.5.2.4. Economic growth and business trade

Emerging markets dominating position in the world's economy is looming larger every year. While in 2011 the real GDP of developed countries was still below the values of 2007, values for the same indicator in emerging economies had already increased to almost 20% (The Economist 2011). These economies have been growing at an increasingly fast pace which ties in with high returns for investors but also an increased level of infrastructures that will benefit future investments.

Additionally, it is interesting to interpret less ordinary indicators of development such as the Global Fortune 500 ranking. Albeit, only including 47 emerging market firms in 2005, this revenue based classification already featured 95 emerging market companies in 2010 (World Bank 2011). This not only shows an evolution in terms of supply but also in terms of demand. These changes have also lifted the living standards in these countries turning them into larger consumers. Currently, emerging economies account for "46% of world retail sales, 52% of all purchases of motor vehicles and 82% of mobile phone subscriptions". (The Economist 2011). This is especially significant if we also consider their dominant position in the consumption of commodities and inflows of foreign direct investment (FDI).

3. RESEARCH QUESTION AND HYPOTHESES

Although some research has been performed on the returns from cross-border acquisitions in emerging economies, it is still very limited. More explicitly, there is a lack of research in the returns to acquirers in emerging markets. Almost all the studies previously done only considered samples involving U.S. firms.

The literature previously examined provides us with the relevant background to further scrutinize the performance of cross-border acquisitions. This analysis will be primarily conducted by the investigation of the following main issues.

1. Do cross-border acquisitions in emerging markets:
 - Create positive abnormal returns to acquirers from emerging markets?
 - Create higher returns to an acquirer from a developed country than an acquirer from an emerging country?
 - Create higher returns to an acquirer from a developed country than an acquirer from an emerging country when there is acquisition of control?
2. What are the main factors influencing these abnormal returns?

Although acknowledging that the main objective of this paper is to conclude on the impact of the home economy on the acquisitions in emerging markets, there are other factors that have to be taken in consideration. This stems from their relevance in explaining possible cumulative abnormal returns.

3.1. MAIN HYPOTHESES

Hypothesis 1: Cross-border acquisitions in between emerging markets create positive abnormal returns to the acquirer.

As demonstrated by the analysis of prior literature, acquisitions in between emerging economies were very rare until 20 years ago but have seen an exponential increase over the past few years. Being this a recent event, not many researchers have been able to express their findings. However, more recent studies and the increase in the number of deals lead us to believe that in fact emerging economy investors perceive acquisitions in other emerging economies as good investments. As a result, it makes

sense to assume that an increase in the stock price of the acquirer at the time of announcement will be observed.

Hypothesis 2: Cross-border acquisitions performed in emerging markets by developed country firms are expected to earn higher abnormal returns than those performed by emerging country firms.

For many decades now, developed country firms have been the major players in cross-border acquisitions in emerging markets. However, the situation is changing. As referred in the previous hypothesis, emerging market firms have been intensifying their presence in the M&A market. Thus, it is important to assess not only their absolute performance but also their relative performance when compared with developed market firms. The benefits offered by developed economy firms are known to be substantial. According to the existing literature, developed market firms tend to have abnormally high positive returns in emerging markets especially due to the bootstrapping hypothesis which would benefit the latter more than emerging market acquirers. As a consequence, it seems reasonable to assume that developed market acquirers are in for larger abnormal positive returns than those of emerging market firms

Hypothesis 3: Deals where the acquirer gains majority control will provide higher returns.

Majority control has been proved to be especially significant in acquisitions in emerging economies. Due to the lack of investor protection, contract enforcement is less prone to take place in these countries. As a consequence, companies are generally required to have majority control in order to prevent possible issues. Furthermore, the higher the stake of the acquirer on the target the higher the impact it can have on its performance. Therefore, it is reasonable to assume that acquiring majority control in the company will increase cumulative abnormal returns.

3.2. SECONDARY HYPOTHESES

3.2.1. CLASSICAL HYPOTHESES

Hypothesis 4: Larger acquirers earn lower positive abnormal returns than smaller acquirers

Several authors have reached the consensus that bidder returns and their size have an inverse correlation. As such, we expect that this will happen in our sample and thus smaller acquirers will earn larger relative returns than those of larger acquirers.

Hypothesis 5: The higher the cash percentage used in the deal, the higher the returns to the acquirer

Several studies have shown that higher cash percentage of the overall deal value, leads to higher positive abnormal returns when compared to other forms of payment. More precisely, equity financed transactions will suffer from a negative reaction from investors deriving from the equity issue thus pressuring down abnormal returns.

Hypothesis 6: Acquirers from the same industry will earn higher positive abnormal returns

Past literature has not reached an agreement on the gains of acquisitions as a means of business diversification. Although some believe this will enhance returns as a consequence of reduced volatility of cash-flows, others state that this will send a negative signal to the market as it only happens when the company has no internal growth opportunities. Horizontal acquisitions have been known to provide economies of scale, economies of scope and a better use of the targets' assets. This expectancy of higher returns from operational gains and higher market power is translated into positive abnormal returns at the time of the announcement. Therefore, it is sound to assume that these acquisitions will have higher abnormal returns than those that are cross-industry.

Hypothesis 7: Smaller deals will earn higher relative abnormal returns than bigger ones

Although having lower absolute dollar gains, smaller deals may earn higher returns in relative terms. In fact, several authors have proved that bidder returns and size have an inverse correlation. Larger acquirers are more prone to overpay for their targets, especially in smaller deals where their stock price is likely to remain unaffected. Still, it is important to mention that overpaying represents a negative wealth transfer from the

acquirer to the target. Therefore, it is reasonable to assume that the larger the transaction size the lower the percentage of returns of the acquisitions.

Hypothesis 8: The acquisition of private targets provides for higher gains to the acquirers than those of public targets

It has been stated in prior literature that lower levels of information and screening on private targets entail more opportunities for acquirers to earn higher abnormal returns. This increase in returns is connected to higher risks taken when acquiring private firms. As such, we may expect to have lower abnormal returns for the acquirer when the target is a public one, his bargaining power which would drive returns upwards is reduced.

3.2.2. NEOCLASSICAL HYPOTHESES

Hypothesis 9: Acquirers from a common law country will earn higher positive abnormal returns

In prior research authors have found that there is a positive correlation between acquirer returns and targets from English legal origin judiciary systems. Opposing this, there is a negative correlation between the returns to the acquirer of targets from French legal origin. As such, it is reasonable to expect that common law countries will earn higher abnormal returns than civil law countries.

Hypothesis 10: Acquirers having the same official language as their targets will earn higher positive abnormal returns

Culture affects the way of doing business in a specific country. Language similarities may be seen as a signal of similar culture. We know that greater cultural distance may enhance resistance from the target which will increase the difficulties faced in integration. This will raise uncertainty around the acquisition performance which may in turn decrease expected returns. Thus, we may infer that acquirers with the same official language are more likely to share similarities in culture which may increase the cumulative abnormal returns at the time of announcement.

4. DATA SAMPLING CONSIDERATIONS

Cross-border acquisitions in emerging markets represent a relatively new phenomenon. Financial liberalization of many emerging economies only occurred during the 1990s and prior to this process many domestic capital markets were still undeveloped. During this decade, many economic and trade reforms were done at the national level which combined with currency speculations drove many countries into a crisis situation. As a consequence and in order not to try to bias our sample, we have decided to only consider transactions announced in 2002 or later.

In order to perform our research and respective analysis we have used data from the Thomson One Banker. This database provides access to data on public and private companies' merger and acquisitions. Additionally, Thomson One Banker provides the date of announcement and the status roll-up for all transactions. Furthermore, it also stores information on the acquirer and target firm characteristics (Name, Nation, Public Status, Ultimate Parent Company and Primary SIC industry classification), and transaction specific information is also available (percentage of shares acquired, value of transaction).

In our research we will consider three separate samples. Sample 1 includes the transactions targeting emerging market firms and performed by Developed and Emerging country acquirers. To test the difference of the returns between emerging and developed market acquirers we create two sub-samples. Sample 2 includes observations for which both the acquirer and the target are from emerging economies; still these have to be cross-border. Finally, sample 3 includes all transactions where the acquirers are from developed economies and the targets from emerging markets.

In order to be included in the main sample, every transaction had to fulfill several criteria, the first one being that it only encompasses transactions in emerging countries performed between 01/01/2002 and 12/31/2011. The reason behind this lies in the fact that many emerging markets only started the liberalization of their capital markets in the 1990's, as mentioned before. Secondly the deal needs to involve a share transfer of at least 5%. This will insure that the transaction is substantial, and thus relevant for our study. Moreover, in order to avoid the bias of rumors we have determined that all announcement returns refer to transactions that have now been completed. Furthermore,

the acquirer needs to be a public company as only in this case will we be able to observe and interpret the evolution in its stock price and hence determine the presence of abnormal returns. More specifically, there is a need for the acquirer's shares to be traded for at least 224 trading days prior to the day of announcement. The explanation for this pre-requisite lies in the need for the stock price information in order to be able to estimate the expected returns based on the correlation of the stock and the market (this will be further discussed in the methodology section). Finally, we also need to have information on the percentage of shares transferred as well as the percentage of shares owned before and after the transaction.

4.1 DATA SCREENS PERFORMED

After considering all previously mentioned parameters we obtained 18 719 deals from the Thomson One Banker with the following characteristics:

- M&A transactions with an ownership transfer of at least 5%
- Period: 2002-2011
- Status of the deal: Completed
- Acquirer Public Status: Public

However, filtering was still required. First, we had to make sure we were only dealing with cross-border acquisitions. For this process we started by using Thomson's cross-border flag, and our observations dropped to 6024. Next, we had to ensure that all the acquirers in our sample had an available DataStream code. The latter is an online historical database provided by Thomson financial which stores stock price information on many financial entities that may be used for academic research (Harvard Business School 2012). In our case, this database will be used in order to obtain market indices as well as the acquirer's stock price evolution. This trimmed our sample to 5784 observations. In a third and last step, we needed to make sure that the value of the transaction was available for all the deals which further reduced our conjoint sample to 3146 deals.

4.2 SAMPLE CHARACTERISTICS

As referred in the prior literature review the developed country nations included in our study are those defined by the World Bank. For the emerging market economies we

also started from those defined by the World Bank, and filtered them by ensuring that the target and acquiring nations in our sample were both involved in at least five different transactions. In Table 1 we can see the different target and emerging countries considered in the different samples of our study.

Table 1. Acquirer and Target Countries featured in the sample

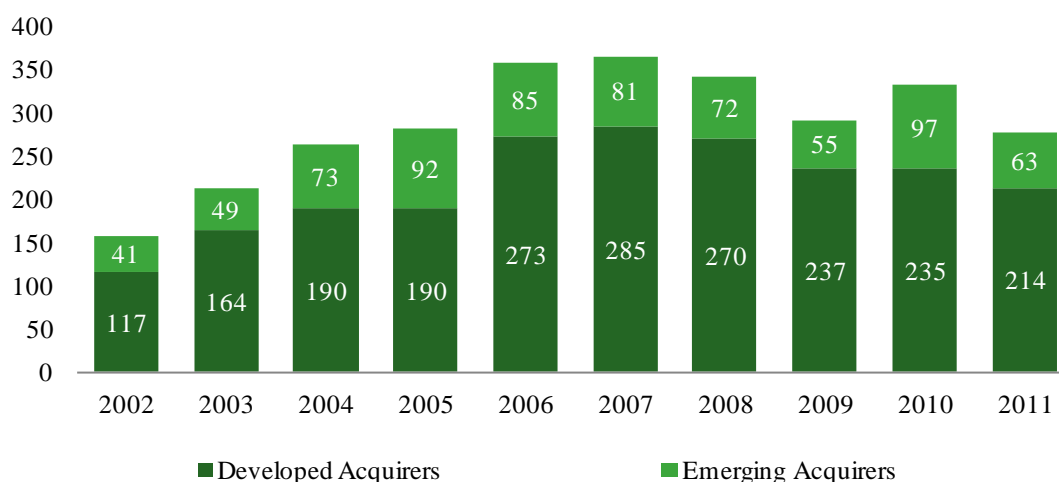
	Sample 1: All - EM	Sample 2: EM-EM	Sample 3: DM-EM
Acquirers	Australia, Austria, Belgium, Brazil, Canada, Chile, China, Colombia, Czech Republic, Denmark, Egypt, Finland, France, Germany, Greece, Hungary, India, Indonesia, Ireland, Iceland, Italy, Japan, Luxembourg, Malaysia, Mexico, Netherlands, New Zealand, Norway, Peru, Philippines, Poland, Portugal, Spain, Sweden, Switzerland, Russia, South Africa, South Korea, Taiwan, Thailand, Turkey, United Kingdom and United States	Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Ireland, Malaysia, Mexico, Peru, Philippines, Poland, Russia, South Africa, South Korea, Taiwan, Thailand and Turkey	Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States
Targets	Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, South Korea, Taiwan, Thailand and Turkey	Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Malaysia, Mexico, Peru, Philippines, Poland, Russia, South Africa, South Korea, Taiwan, Thailand and Turkey	Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, South Korea, Taiwan, Thailand and Turkey

Although, emerging market targets and acquirers may be composed of different nations this is not a source of bias in our study as we only considered cross-border acquisitions even among emerging economies. The targeted countries simply reflect the nations where other companies believe more value will be created through acquisitions. Nevertheless, the samples are not significantly different, when it comes to emerging countries: Ireland is an emerging acquirer and not a target, Morocco is a target and not an acquirer.

The total value of the conjoint sample of transactions performed by Emerging and Developed market acquirers is greater than 469 billion USD. Even if we have a

significantly higher number of observations for developed market acquirers, the proportion of EM-EM and DM-EM seems to stay relatively proportional over time, as can be observed in Figure 2. This reduces the impact of the number of observations as a possible source of bias in our study.

Figure 2. Volume of announced transactions per year (number)



Taking a deeper look at our conjoint sample we can see a predominance of acquisitions involving developed country acquirers, however it is also interesting to note that several EM nations can still place in the top ten cross-border acquirers in emerging markets when considering the total number of deals (table 2).

Table 2. Distribution of Top 10 Acquirer Nations (EM & DM)

Acquirers' Nation	Number of Deals	% total deals	Deal Value (US \$ million)	% total deal value
United States	556	9%	78,044	7%
Canada	412	7%	13,950	1%
United Kingdom	361	6%	107,337	9%
Japan	217	3%	40,373	4%
Australia	174	3%	7,885	1%
South Korea	113	2%	8,079	1%
France	108	2%	51,317	5%
Malaysia	97	2%	5,281	0%
India	73	1%	7,044	1%
Germany	72	1%	22,497	2%

In terms of target nations we can notice that China is the target with the most acquisitions by number (9%). In spite of this, it is interesting to observe that although Brazil has a lower number of deals it is the target with the highest percentage of total deal value, as can be seen in the table below. Although it may seem that the targeted

nations have a more concentrated distribution, we have to keep in mind that this may be related to the fact that we have 43 possible acquirer nations but only 20 emerging targets.

Table 3. Distribution of Top 10 Target Nations (EM)

Acquirers' Nation	Number of Deals	% total deals	Deal Value (US \$ million)	% total deal value
China	597	19%	51,656	9%
Brazil	308	10%	103,635	18%
India	276	9%	64,404	11%
Mexico	254	8%	28,413	5%
Russian Fed	218	7%	63,623	11%
South Africa	175	6%	32,130	6%
Indonesia	149	5%	13,764	2%
South Korea	135	4%	18,688	3%
Poland	133	4%	18,178	3%
Peru	115	4%	7,055	1%

Table 5 comprises some firm and deal characteristics of our sample. The industry distribution of these deals shows a greater percentage of both acquirers (25.6%) and targets (26.3%) in the materials sector. All other industries only account for approximately 10% or less of the total sample. The data on the table also shows that DM acquirers tend to perform acquisitions of higher value but are also generally of larger size (market capitalization) than EM acquirers. Furthermore, both EM and DM tend to acquire control, as reflected in the table majority control was obtained in more than 60% of the observations of our sample. Lastly, there is no specific tendency in terms of diversification; approximately 50% of the acquisitions are performed in the same industry sector.

Table 4. Summary Statistics for firm and deal specificities

	Sample 1 All acquirers in EM	Sample 2 EM Acquirers in EM	Sample 3 DM Acquirers in EM
<i>Firm and deal characteristics</i>			
Median transaction size (\$M)	20.335	16.7	22.5
Median acquirer market capitalization (\$M)	1464.6	826.2	2002.4
Control acquired (%)	64.20%	60.31%	65.52%
Public target (%)	16.34%	19.49%	15.31%
Diversifying Acquisition (%)	52.58%	56.64%	51.26%
Mean Acquirer CAR (%)	0.75%	0.97%	0.67%
Mean Acquirer CAR with control acquired (%)	0.94%	1.32%	0.83%
<i>Acquirer macroeconomic industry</i>			
Consumer Products and Services	5.27%	3.53%	5.84%
Consumer Staples	9.12%	13.14%	7.82%
Energy and Power	8.05%	7.63%	8.18%
Financials	13.28%	13.42%	13.24%
Government and agencies	0.00%	0.00%	0.00%
Healthcare	4.82%	3.67%	5.20%
High Technology	9.78%	11.30%	9.29%
Industrials	11.45%	14.41%	10.48%
Materials	25.63%	16.53%	28.60%
Media and Entertainment	3.05%	3.25%	2.99%
Real Estate	2.01%	1.41%	2.21%
Retail	2.74%	4.10%	2.30%
Telecommunications	4.79%	7.63%	3.86%
<i>Target macroeconomic industry</i>			
Consumer Products and Services	5.79%	3.53%	6.53%
Consumer Staples	8.64%	12.71%	7.31%
Energy and Power	8.26%	7.06%	8.64%
Financials	11.00%	11.86%	10.71%
Government and agencies	0.03%	0.00%	0.05%
Healthcare	4.65%	3.53%	5.01%
High Technology	9.33%	10.03%	9.10%
Industrials	12.28%	14.69%	11.49%
Materials	26.33%	18.79%	28.78%
Media and Entertainment	3.43%	3.81%	3.31%
Real Estate	2.32%	2.12%	2.39%
Retail	3.36%	4.94%	2.85%
Telecommunications	4.58%	6.92%	3.82%

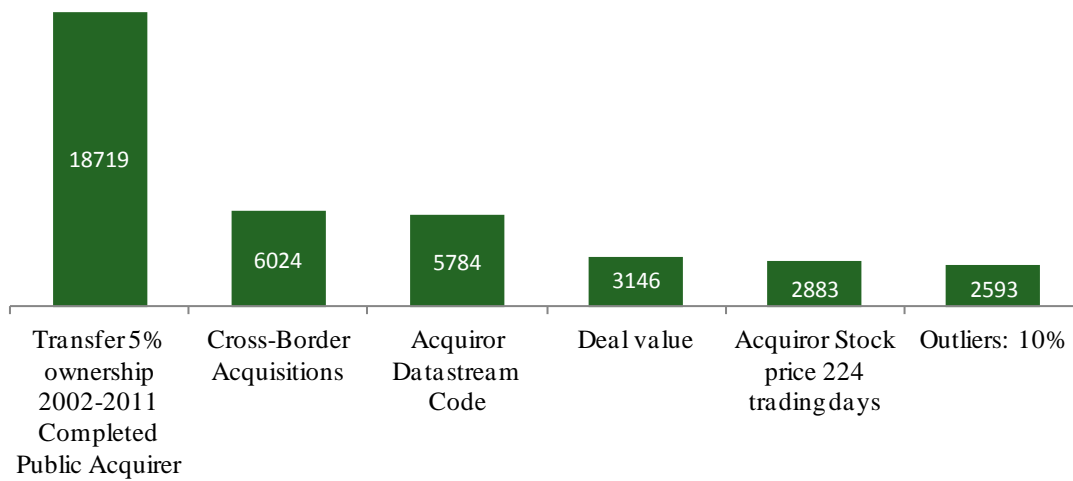
The table summarizes the transactions involving publicly listed acquirers from Developed and Emerging Economies and public and private targets in Emerging Economies announced between 2002 and 2011. The CARs were estimated using US\$ denominated returns and a three-day event window. The control acquired is a dummy variable that reflects whether the acquirer holds an absolute majority of the target, 50% or more, after the acquisition that he did not hold before. Diversification is a dummy variable that reflects whether the acquirer has the same three-digit SIC industry code as the target.

To further analyze our data, we have had to use a statistical software program, STATA. However, after inserting the data on DataStream we needed to ensure the

availability of the acquirer stock prices for at least 224 days prior to announcement as mentioned before, this drops the sample down to 2883 deals. Out of these transactions, 708 were performed by emerging market acquirers and 2175 were performed by developed market acquirers.

Lastly we have used the information on the 5th and 95th percentile given by STATA in order to remove the outliers from our sample and thus finish the cleaning process. In the end, we have a total number of 2593 deals (Sample 1) and our sub-samples are composed of 657 transactions for emerging market acquirers (Sample 2) and 1936 transactions for developed market acquirers (Sample 3). The sum-up of all the cleaning steps can be observed in the figure below.

Figure 3. Sample cleaning-up stages



5. METHODOLOGY OF EVENT STUDIES: CUMULATIVE ABNORMAL RETURNS (CARs)

Event studies were originally introduced in 1968 by Ball and Brown and in 1969 by Fama, Fisher, Jensen and Roll. It is the simplicity of this model that has attracted the literature and the model has been of use in different fields ever since. Although, some minor changes have been made as a consequence of advancements in research, the core methodology remains identical (Corrado 2011)

An event study is a statistical approach which is performed in order to try to estimate the stock market reaction to a specific and well defined announcement (earnings, acquisitions, mergers). Due to this announcement there will be a change in the stock price of the company which reflects an abnormal return (Serra 2002). This variation will be done in agreement with the expected stream of future profits stemming from this acquisition in particular (Duso, Gugler and Yurtoglu 2010). From this we can infer that a positive return at the time of announcement reflects an assessment of value creation resulting from the transaction.

Event study methodology finds great support in the efficient market hypothesis. Together with the concept of abnormal returns, the belief that stock prices rapidly adjust to the new information available in the market are crucial assumptions of this model (Fama, et al. 1969). This may be of some concern, as it is this much criticized belief that will allow us to assume that the changes in the stock price inside the event-window are only caused by new available information.

Nevertheless, this model allows us to compare several announcements in different time periods in order to assess their value creation. Thus, it seems to be perfect for our study considering that we intend to do a comparison between emerging and developed acquirers involving emerging market targets.

5.1. COMPUTING THE CARs - IN THEORY

The returns on the stock price on a given date (R_{it}) are said to be influenced by two different forces, the market returns (RM_t) and the firm-specific return that cannot be explained by the correlation between the stock and the market index (e_{it}):

$$\widehat{R}_{it} = \alpha + \beta \times RM_t + e_{it} \quad (1)$$

By assumption $E(e_{it}) = 0$,

Therefore,

$$E(R_{it}) = \alpha + \beta \times RM_t \quad (2)$$

In order to calculate the stock price abnormal returns we first need to obtain the estimated market returns according to the market model shown above. These estimated returns are obtained by regressing the stock price returns (known y's) on the market returns (known x's) over an estimation window starting 224 days and ending 24 days before the day of the announcement of the acquisition. Through this process we are able to estimate the α and the β of equation 2 and thus use the estimated returns as a proxy for the expected returns on the stock had the acquisition not been announced. We then estimate the abnormal returns of each of the firms in the sample around the day of announcement:

$$AR_{it} = \widehat{R}_{it} - E(R_{it}) = \widehat{R}_{it} - (\alpha + \beta \times RM_t) \quad (3)$$

Knowing that there may be information unofficially or even illegally disclosed prior to the official day of announcement and that the effect on the stock price may take a few days to become effective, we compute the cumulative abnormal returns for an event window of three and five days around the day of announcement.

$$CAR_i = \sum_{t=-n}^{t=n} AR_{it} \quad (4)$$

5.2. COMPUTING THE CARs - IN PRACTICE

In order to compute the cumulative abnormal returns for our sample we have had to take several steps that show how the theory explained in the section before is applied

in practice. In a first stance, we need to obtain the adjusted stock prices (RI)¹, for the stocks in our sample and also for the market indices to be used.

The benchmark chosen for developed market acquirers' stocks is the MSCI-World Index which was created in 1969 and only contains developed market stocks. Concerning our emerging market acquirers we have decided to use the MSCI-EM, an index created in 1998. Although acknowledging that all emerging markets are very different, the reason behind the choice of this last index lies in the fact that as of today, the country coverage of the MSCI-EM includes exactly the same countries as the ones defined in the sample of emerging markets considered in our study (Morgan Stanley 2011).

In a second stance, we compute the returns on each of the securities and index according to equation 5.

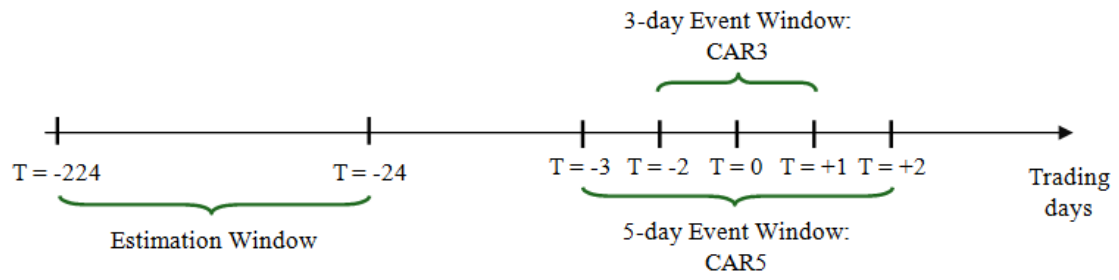
$$R_t = \frac{RI_t}{RI_{t-1}} - 1 \quad (5)$$

Finally we need to calculate the abnormal returns on each stock using the market model. For this we have used the excel function forecast, (FORECAST (x, known y's, known x's)), which returns the expected values of the dependent variable (stock returns - R_t) for a given value of the independent variable (market returns - RM_t) using the ordinary least squares (OLS) regression method. The known y's represent the stock returns and the known x's represent the market returns over the 200 day estimation window starting 224 days and ending 24 days before the date of announcement.

The last step of this process consists in adding the abnormal returns according to the two event windows to be considered, as can be shown in the figure and equations below.

¹ Return Index (RI): "This shows a theoretical growth in value of a share holding over a specified period, assuming that dividends are reinvested to purchase additional units of an equity or unit trust at the closing price applicable on the ex-dividend date." (Thomson Reuters 2008)

Figure 4. Event study timeline



$$CAR_3 = AR_{-1} + AR_0 + AR_{+1} \quad (6)$$

$$CAR_5 = AR_{-2} + AR_{-1} + AR_0 + AR_{+1} + AR_{+2} \quad (7)$$

6. RESULTS AND DISCUSSION

In this section we will start by analyzing the veracity of our main hypotheses and will then take a deeper look at our control variables as we try to understand the sources of value creation for Emerging Market Acquirers.

6.1. MAIN HYPOTHESES' FINDINGS AND RESULTS

The results of our study prove to be consistent with the literature. When considering the full sample (sample 1), we have observed significant positive cumulative abnormal returns of 0.75% for a three-day event window (Table 5). More specifically considering our EM-EM sample (sample 2) we find that emerging market acquirers earn positive abnormal returns of 0.97% for a three-day event window. Furthermore, after performing a t-test we have reached the conclusion that these are positive and statistically significant for a confidence interval of 99%. Thus, we verify Hypothesis 1, cross-border acquisitions in between emerging markets do create positive abnormal returns for their acquirers.

Table 5. Emerging and Developed market acquirers: T-test, sign-test, Wilcoxon rank-sum (Mann-Whitney) test and univariate regression

*, **, and *** denote the statistical significance of the coefficients at the 10%, 5%, and 1% levels, respectively.

	Full Sample							
	Emerging Markets		Developed Markets		Combined		Difference	
	CAR (-1,+1)	CAR (-2,+2)	CAR (-1,+1)	CAR (-2,+2)	CAR (-1,+1)	CAR (-2,+2)	CAR (-1,+1)	CAR (-2,+2)
Mean	0.97%***	1.41%***	0.67%***	0.88%***	0.75%***	1.01%***	0.30%*	0.53%
(p-value)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.10)	(0.15)
Median	0.14%	0.32%	0.19%***	0.23%**	0.17%***	0.24%***		
Sign-test p-value	(0.18)	(0.16)	(0.00)	(0.02)	(0.00)	(0.01)		
Positive CAR%	52%	52%	53%	53%	53%	52%		
Difference of Medians							-0.05%	0.09%
p-value (Wilcoxon test)							(0.45)	(0.17)
Standard Deviation	4.33%	8.44%	3.97%	8.00%	4.07%	8.11%		
Min	-8.44%	-20.77%	-8.48%	-32.14%	-8.48%	-32.14%		
Max	15.41%	126.33%	15.90%	117.23%	15.90%	126.33%		
1st percentile	-7.40%	-11.27%	-7.48%	-15.28%	-7.48%	-15.28%		
99th percentile	13.64%	21.30%	12.93%	24.09%	13.23%	24.09%		
Number of obs.	657	657	1936	1936	2593	2593	2593	2593

Nevertheless, research also states that cross-border acquisitions in emerging economies create value for acquirers of DM firms. As a consequence, in order to understand if the country of origin has a significant impact on abnormal returns, we need to compare the results of EM and DM acquirers. This leads us to the study related

to our second hypothesis. Here, we find that emerging market acquirers' have higher positive abnormal returns than developed market acquirers. In fact, we find that considering a three-day event window, the mean abnormal returns for EM acquirers is of 0.97% while the mean of developed acquirers is of 0.67% (Table 5). This difference of 0.3% has been proved to be significant with a confidence level of 90% (Table 5).

The results obtained lead us towards the conclusion that investors are positively valuing cross-border acquisitions in emerging markets as referred in previous researches by Chari, et al. (2010) as well as many others. Moreover, we can take a step further and state that investors are considering cross-border acquisitions in emerging markets which also involve EM acquirers as valuable. Although acknowledging the lack of research on the difference in abnormal returns between emerging and developed acquirers in the past, there are some possible reasons for this event that make us reject Hypothesis 2 and are thus worth mentioning. As stated in the literature review, this may be inherent to the fact that emerging acquirers may have a better understanding of the way of doing business in these countries through the sharing of similar characteristics, especially in terms of non-performing legal systems. Moreover, these countries are growing exponentially and providing higher returns to their investors which lead to the creation of infrastructures benefiting future investments and translating into higher expectations of future cash flows. Another possible reason provided in the literature is that as latecomers, companies from emerging economies tend to need more access to external resources and capabilities which leave room for higher upgrading and thus raise investor expectations of future earnings. All the factors mentioned above may explain the difference in value creation of cross-border acquisitions between emerging and developed market acquirers in emerging markets.

One more thing worth mentioning is that, although emerging market acquirers have always a higher mean of positive abnormal returns, their difference related to developed market acquirers is not significant for a five-day event window. As a consequence, for the remaining of our study we shall focus on the distribution of CAR (-1, +1).

6.2. THE IMPACT OF MAJORITY CONTROL

The impact of the majority of control is common to both EM and DM acquirers. When considering our full sample, there is a statistically significant difference of 0.3% in the mean abnormal returns for a three-day event window and a confidence level of 99% (Table 6). This corroborates the literature and may be explained by the lack of investor protection and contract enforcement in emerging markets. In order to avoid problems foreign companies tend to require majority control. Furthermore, this is accepted by local companies as the means of getting access to financing. It has been of general consensus that acquiring control in emerging markets does indeed provide higher abnormal returns and is once again proved in our sample which verifies our third hypothesis. However, for the purpose of our study, we need to assess if there is a difference in the returns between EM and DM acquirers given the acquisition of majority control.

Table 6. Summary statistics for the variable "Acquisition of Control"

Break-down by emerging and developed market acquirers: T-test, sign-test, Wilcoxon rank-sum (Mann-Whitney) test and univariate regression. *, **, and *** denote the statistical significance of the coefficients at the 10%, 5%, and 1% levels, respectively.

	Acquisition of Control			
	Full Sample			
	Control	No Control	Combined	Difference
	CAR (-1,+1)	CAR (-1,+1)	CAR (-1,+1)	CAR (-1,+1)
Mean	0.94%	0.42%	0.75%	0.30%***
<i>p-value (t-test)</i>				(0.00)
Median	0.31%	-0.01%	0.17%	0.33%***
<i>p-value (Wilcoxon test)</i>				(0.00)
Standard Deviation	4.21%	3.79%	4.07%	
Min	-8.48%	-8.23%	-8.48%	
Max	15.58%	15.90%	15.90%	
1st percentile	-7.78%	-7.26%	-7.48%	
99th percentile	13.64%	12.14%	13.23%	
Number of observations	1637	956	2593	

Chari et al. (2010) have done extensive research on the impact of control in acquisitions in emerging markets. They have reached the conclusion that acquisitions in emerging markets earn significantly positive abnormal returns when there is acquisition of majority control (the acquirer detains less than 50% of the shares before the transaction and controls at least 50% of the target's shares after the transaction). While the authors have found that the magnitude of the gain of EM acquirers is significantly

lower than that of DM ones, we have found that they are higher. In fact, as shown in Table 7, the mean abnormal returns for emerging market acquirers is of 1.32% while the mean of developed acquirers is of 0.83% for a three-day event window. This result is statistically significant for a confidence level of 95%.

Table 7. Emerging and Developed market acquirers considering "Acquisition of control"

T-test, sign-test, Wilcoxon rank-sum (Mann-Whitney) test and univariate regression. *, **, and *** denote the statistical significance of the coefficients at the 10%, 5%, and 1% levels, respectively.

	Acquisition of Control			
	Acquisition of control Sample			
	Emerging M. CAR (-1,+1)	Developed M. CAR (-1,+1)	Combined CAR (-1,+1)	Difference CAR (-1,+1)
Mean	1.32%	0.83%	0.94%	0.49%**
<i>p-value (t-test)</i>				(0.04)
Median	0.38%	0.30%	0.31%	0.08%
<i>p-value (Wilcoxon test)</i>				(0.22)
Standard Deviation	4.56%	4.09%	4.21%	
Min	-8.44%	-8.48%	-8.48%	
Max	15.41%	15.58%	15.58%	
1st percentile	-7.89%	-7.77%	-7.78%	
99th percentile	14.56%	13.43%	13.64%	
Number of observations	391	1246	1637	

This difference in the observed results may be due to several reasons. First and most important, Chari et al. (2010) also include domestic acquisitions in their EM-EM sample. In the contrary, we only focus on cross-border acquisitions even among emerging markets as we believe some country-specific macroeconomic discrepancies are still present. More specifically, until recently cross-border acquisitions stemming from emerging economies were very rare due to the restrictive government regulation. Secondly, their data time period 1986-2006, is twice as large and considers the capital market liberalization period which generated much instability in many emerging markets. Last and less importantly, we also have to consider that the emerging countries considered in their sample are different from the ones considered in the sample of this study².

² EM-EM sample: Argentina, Brazil, Chile, China, Ecuador, Egypt, India, Indonesia, Malaysia, Morocco, Peru, Philippines, South Africa, South Korea and Thailand (Chari, Ouimet and Tesar 2010).

To sum up, we find that in the presence of the acquisition of control, transactions involving acquirers from emerging markets have higher mean abnormal returns than those involving developed markets. This difference is of 0.49% and is statistically significant for a confidence level of 95% (Table 7). Together with the reasons mentioned in the discussion of hypothesis 1 and hypothesis 2, the differences presented above may account for a part of the difference in abnormal returns observed between emerging and developed market acquirers in emerging markets.

6.3. MULTIVARIATE REGRESSIONS

Multivariate regressions need to be done in order to evaluate the robustness of our main hypotheses and also explore the ones we still have not addressed. This study will help us better understand the impact of our explanatory and control variables on the dependent variable. In fact, this regression analysis intends to estimate the conditional expectation of the variations in the CAR (-1,+1), given the independent variables.

The main explanatory variables of our study are EM (the acquirer is from and emerging market) and control (acquisition of majority control). The control variables are in line with those we found relevant after performing a deep literature research. These are the log of the acquirer's market capitalization (proxy for size), the cash percentage used to finance the deal, the log of deal value (logarithmized to correct for normality), year period (divides our distribution into two periods 2002-2007 and 2007-2011), diversification (cross-industry), common law acquirer (proxy for higher investor protection), language (proxy for a possible source of cultural proximity) and public target. Moreover, industry dummies have also been used in order to provide a supplementary challenge to the robustness of our findings.

As mentioned in the sample considerations we have excluded the outliers by the non-inclusion of the observations on the 5th and 95th percentile in STATA. Considering all the information above our multivariate regressions take the following form:

$$\begin{aligned} \text{CAR}(-1, +1) = & \alpha + \beta_1 \times EM + \beta_2 \times \text{control} + \sum_i^n \beta_i (\text{control variable}_i) \\ & + \sum_i^n \beta_i (\text{industry dummy}_i) + \varepsilon \end{aligned}$$

Due to multicollinearity and the effects it would have on our regression, we have had to make sure that deal value and acquirer market capitalization variables were not included in the same regression as their correlation amounts to 0.65 (Table 8).

From this regression analysis, we find that our main explanatory variable, being an emerging market acquirer (EM), has a significance level between 10% and 1% in all the regressions performed, as can be observed in Table 8. Moreover, our second explanatory variable, acquisition of majority control, has a significance level of 1% or 5% in all the regressions. From this, we can state that an EM acquirer will be able to earn higher cumulative abnormal returns by 0.37% up until 1.11%, while the acquisition of control may account for an increase between 0.52% and 0.79%.

Concerning our control variables, most results seem to be in line with the literature. First, the coefficient of the log of acquirer market capitalization shows that smaller firms seem to add more value than bigger ones. This is consistent with the previous literature and is in fact significant at 5% in some of the regressions performed. Thus we may confirm Hypothesis 4 which states that smaller firms tend to have higher returns from acquisitions than bigger ones. Additionally, deals performed between 2007 and 2011 earn higher CARs than the ones taking place in the first years of our sample, this is still true when considering a level of significance as high as 1%. This may be explained by the economic crisis which has led to significant changes and an increasingly important role of emerging market players in outward foreign direct investment. In the case of the cash percentage used to finance the deal, we can observe that the higher the percentage of cash used the higher the abnormal returns to the acquirer stemming from the acquisition. However the coefficient is not significant and we cannot verify our Hypothesis 5 with a reasonable level of certainty. Nevertheless, the difference in the average percentage of cash used in the transaction is statistically significant at 1% with emerging markets using it more often at an average of 8.01% (Table 13).

In addition, the acquirer's legal system seems to have an impact on abnormal returns that also corroborates the existing literature. In particular, as expected common law acquirers seem to generate higher cumulative abnormal returns than those coming from a French origin. This relates to the fact that these countries tend to have higher

investor protection which may lead to an increase in the target's corporate governance. This is abnormally positively valued and, in fact, verifies our Hypothesis 9.

It is worth noting that surprisingly some variables which have been previously documented as having a high impact on abnormal returns do not appear to be significant in our regression. Particularly, the log of deal value which has shown to have a significantly negative impact in prior literature, in our research appeared to have a positive coefficient. Yet, these coefficients were not significant and thus do not allow us to withdraw any conclusions.

What is more, diversification effect seems to have a negative impact on returns. Although never significant, the coefficient of the regression for this variable is consistently negative. This would verify our hypothesis 6 which is not surprising if we consider that in previous literature several authors also advocated for this negative relation. In addition, even if we expected that two countries having the same language would have a smaller cultural distance, this may in fact not be the case. Contrarily to what was expected, the coefficient associated to the language tends to be negative even if never significant. This may be due to the erroneous belief that having the same language may indicate that the acquirer and the target have similar ways of doing business when in fact they do not. Finally, public targets provide acquirers with lower returns as convened by the literature. Nevertheless, one has to bear in mind the low significance of these findings and thus rightful conclusions may not be made.

On a last note, there are several differences among the characteristics of emerging and developed acquirers' deals in our overall sample. When assessing the control variables at an individual level and observing their summary statistics we may find several interesting facts. First, on average emerging market acquirers tend to be smaller (Table 14), engage in smaller deals (Table 15) and are from non-common law countries (Table 16). This allows us to draw a profile of the EM acquirers in our sample as being more likely to be smaller companies, performing much smaller deals and having lower investor protection. These characteristics may be associated with the need from EM acquirers to internationalize increasingly early and thereby abiding to different patterns from those followed by traditional developed market acquirers. In terms of deal specifics, EM acquirers tend to finance the transaction with a higher proportion of cash (Table 13), have performed relatively more acquisitions since 2007 (Table 17), tend to

Table 8. Multivariate Regression coefficients, and statistics for EM and Majority Control

This table shows the results for the multivariate regressions for the dependent variable, CAR (-1,+1), on our explanatory variables and control variables. T-test statistics of the heteroskedasticity-robust regressions are reported underneath each coefficient in parentheses. *, **, and *** denote the statistical significance of the coefficients at the 10%, 5%, and 1% levels, respectively. EM is a dummy variable which takes on a value of one if the acquirer is from an emerging market and a value of zero if the acquirer is from a developed market. Control is a dummy variable which takes on a value of one if majority control is acquired in the transaction. Year period is a dummy variable which takes on a value of one for every transaction announced between 2007 and 2011 and a value of zero for the 2002-2006 period. Common law acquirer is a dummy variable which takes on a value of one when the acquirer is from a common law country. Diversification is a dummy variable which takes on a value of one when the target is from a different 3-digit SIC industry code than that of the acquirer. Language is a dummy variable which takes a value of one when countries have the same official language.

	CAR(-1,+1)	CAR(-1,+1)	CAR(-1,+1)	CAR(-1,+1)	CAR(-1,+1)	CAR(-1,+1)	CAR(-1,+1)	CAR(-1,+1)	CAR(-1,+1)	CAR(-1,+1)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
EM	0.0037*	0.0044**	0.0044**	0.0094***	0.0089***	0.0105***	0.0111***	0.0092**	0.0103***	0.0111***
	(1.92)	(2.05)	(2.05)	(2.83)	(2.66)	(3.04)	(3.16)	(2.47)	(2.72)	(2.80)
Majority Control	0.0052***	0.0057***	0.0057***	0.0073***	0.0073***	0.0064**	0.0061**	0.0079***	0.0074**	0.0071**
	(3.17)	(3.20)	(3.20)	(2.71)	(2.70)	(2.34)	(2.20)	(2.68)	(2.49)	(2.37)
Log (Acquiror market cap)		-0.0015**	-0.0015**					-0.0004685	-0.0001	0.0000
		(-2.09)	(-2.09)					(-0.38)	(-0.10)	(0.03)
Cash Percentage				0.0072	0.0072	0.0087	0.00869	0.0087	0.0094	0.0095
				(1.30)	(1.31)	(1.56)	(1.56)	(1.42)	(1.53)	(1.54)
Log (Deal Value)				0.0008	0.0008		0.00156			
				(0.61)	(0.59)		(1.09)			
Year Period					0.0053**	0.0054***	0.0053**	0.0071***	0.0074***	0.0073***
					(2.10)	(2.10)	(2.06)	(2.57)	(2.68)	(2.59)
Common law Acquirer						0.0044	0.0049*		0.0041	0.0044
						(1.57)	(1.76)		(1.36)	(1.41)
Diversification						0.0008	0.00118		-0.0011	-0.0011
						(0.30)	(0.45)		(-0.39)	(-0.39)
Language						-0.0034	-0.0036			-0.0020
						(-1.03)	(-1.09)			(-0.58)
Public Target						-0.0011	-0.0021			-0.0014
						(-0.32)	(-0.62)			(-0.39)
Industry Dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.0021***	0.0068*	0.0068	-0.0058	-0.0088	-0.0100	-0.0127*	-0.0084	-0.0119	-0.0117
	(2.44)	(1.81)	(1.81)	(-0.85)	(-1.29)	(-1.46)	(-1.73)	(-1.10)	(-1.45)	(-1.43)
R-squared	0.0110	0.0157	0.0157	0.0369	0.0407	0.0434	0.0447	0.0501	0.0521	0.0527
Observations	2593	2266	2266	1020	1020	1020	1020	893	893	893

diversify across industries (Table 18) and acquire less public targets (Table 19). Lastly, we should not dismiss the importance of acquiring majority control as mentioned previously.

6.4. SOURCES OF VALUE CREATION FOR EMERGING MARKET FIRMS

Now that we have covered the main hypotheses of our study through an individual and multivariate analysis we will move onto the analysis of the value creation of transactions involving emerging market acquirers (Sample 2).

Table 9. Multivariate Regression coefficients and statistics for the EM-EM sample

This table shows the results the results for the multivariate regressions for the dependent variable, CAR (-1, +1), one of our explanatory variables and control variables. Control takes on a value of one if majority control is acquired. Year period takes on a value of one for transactions between 2007 and 2011. Common law acquirer takes on a value of one when the acquirer is from a common law country. Diversification takes on a value of one when the target has a different 3-digit SIC industry code than the acquirer. Language takes a value of one when countries have the same official language. T-test statistics of the heteroskedacity-robust regressions are reported underneath each coefficient in parentheses. *, **, and *** denote the statistical significance of the coefficients at the 10%, 5%, and 1% levels, respectively.

	CAR(-1,+1)	CAR(-1,+1)	CAR(-1,+1)	CAR(-1,+1)	CAR(-1,+1)
	(1)	(2)	(3)	(4)	(5)
Control	0.0085** (2.53)	0.0193*** (3.08)	0.0180*** (3.14)	0.0195*** (3.12)	0.0168*** (2.92)
Log (Acquiror market capitalization)		-0.0059** (-2.34)		-0.0065** (-2.41)	
Cash Percentage		0.0255 (1.61)	0.0293** (1.98)	0.0257 (1.60)	0.0299** (1.97)
Log (Deal Value)			-0.0006 (-0.20)		0.0006 (0.20)
Year Period				0.0020 (0.29)	-0.0008 (-0.13)
Common law Acquiror				-0.0032 (-0.46)	0.0028 (0.44)
Diversification				0.0003 (0.05)	0.0044 (0.69)
Language				-0.0014 (-0.20)	-0.0009 (-0.14)
Public Target				-0.0001 (-0.01)	-0.0041 (-0.51)
Industry Dummies	Yes	Yes	Yes	Yes	Yes
Constant	-0.0001 (-0.03)	-0.0086 (-0.45)	-0.0259 (-1.53)	-0.0070 (-0.34)	-0.0282 (-1.51)
R-squared	0.0242	0.1600	0.1117	0.1617	0.1157
Observations	657	213	255	213	255

After performing a multivariate analysis on our EM-EM sample (Sample 2), we find evidence that there are three variables that have a significant impact on abnormal returns: majority control, acquirer market capitalization and the cash percentage used to finance the deal.

The first one, majority control was already extremely significant in the full sample and has a positive correlation with abnormal returns. These results do corroborate the existing literature and reflect the well-known belief that it is crucial to have control on the targets when performing acquisitions in emerging markets. This is not a surprise as these countries tend to have lower investor protection and as a consequence higher risks of expropriation. Therefore, this is the only form for acquirers to insure that they will be able to have an impact on the core decisions of the company. This is especially interesting as it may be indicative of the reason behind the existing pyramidal structures in emerging economies. In fact, as we can see in the table below, acquiring majority of control will, on average, increase the cumulative abnormal returns to the acquirer of 0.85% being this value able to increase up to 1.95% (Table 9).

Table 10. Summary statistics for the variable "Majority Control" for Emerging Market Acquirers

T-test, sign-test, Wilcoxon rank-sum (Mann-Whitney) test and univariate regression. *, **, and *** denote the statistical significance of the coefficients at the 10%, 5%, and 1% levels, respectively.

	Acquisition of Control			
	Emerging Markets Sample			
	Control	No Control	Combined	Difference
	CAR (-1,+1)	CAR (-1,+1)	CAR (-1,+1)	CAR (-1,+1)
Mean	1.32%	0.47%	0.97%	0.85%**
<i>p-value (t-test)</i>				(0.01)
Median	0.38%	-0.09%	0.14%	0.29%**
<i>p-value (Wilcoxon test)</i>				(0.02)
Standard Deviation	4.56%	3.91%	4.33%	
Min	-8.44%	-8.23%	-8.44%	
Max	15.41%	12.71%	15.41%	
1st percentile	-7.89%	-7.26%	-7.40%	
99th percentile	14.56%	11.96%	13.64%	
Number of observations	391	266	657	

The second variable, acquirer market capitalization which is logarithmized in order to correct for normality, presents a negative correlation with value creation. This corroborates not only the existing literature but also the multivariate analysis that we have previously performed in our full sample (Table 8). Thus, we may conclude that the larger the acquirer the lower the abnormal returns it will earn. More precisely, in emerging markets the size of the acquirer may have a negative impact on the CARs ranging from -0.59% and -0.65% (Table 9).

Concerning the cash percentage used to finance the deal, it is in line with the previous literature, albeit we expected this variable to have a more significant impact on abnormal returns. Nevertheless, it is still important to mention that the percentage of cash used may increase the CARs up until 2.99% with a confidence level of 95% (Table 9). This may provide a rationale for more than half of our emerging market acquirer's to opt by fully paying in cash and for the average percentage of cash used to be as high as 94% (Table 13). On top of that, one has to remember that emerging markets have less developed capital markets and thus it is natural that buying companies with stock is far less common.

Surprisingly, when we analyze our emerging market sample we find that the coefficient associated with the variable of diversification which accounts for cross-industry acquisitions, is positive. This is contrary to what we observe in our multivariate analysis, which considers the full sample (Table 8). In fact, and according to previous literature, this positive effect may only be present for emerging acquirers as its explanation lies in the need for these firms to overcome their latecomer disadvantage and thus acquire strategic assets abroad which may not necessarily be part of the same primary SIC industry. For example, many retail companies acquire sophisticated technology abroad.

One last thing worth mentioning is that although the legal system of the acquirer's country was significant when we considered the full sample it is not significant when we are only considering emerging markets. One reason for this may be that the improvements in corporate governance expected to stem from the deal are not large enough to influence abnormal returns. Furthermore, it is also interesting to observe that the year period in which the acquisition took place was significant for the full sample but it is not when we only consider emerging market deals. One possible

explanation for this may be that the impact of this variable may be much more significant for developed market deals but it becomes irrelevant when comparing the CARs for only emerging acquirers.

7. LIMITATIONS AND FURTHER RESEARCH

7.1. LIMITATIONS

To fully understand the results of this study we need to be conscious about its limitations. The first limitation concerns our sample selection and the need for acquirers to be public and their stocks traded for at least 224 days prior to the date of announcement in order to be considered. This restriction finds its reason in the need for stock price information to be available as only in this case would we be able to compute abnormal returns for our event study and assess whether there is value creation. Notwithstanding, private and more specifically family firms represent a significant portion of emerging market firms, leading us to the exclusion of a significant amount of acquirer firms. Furthermore, our sample does not include deal characteristics such as whether it is a friendly or hostile takeover which we do acknowledge to possibly have a significant impact on the CARs. One thing worth mentioning is that the existence of liberalized capital markets in emerging markets is a pretty recent event which may provide a twofold set of limitations. The first reflects the existence of limited stock price information on the acquirers and the second is that until recently emerging market firms were still under very significant regulatory policies which reflected upon the growth and expansion possibilities from one emerging to another emerging market. To solve for this we could have included domestic acquisitions but this would defy the main purpose of our study which only concerns cross-border acquisitions.

Additionally, we also have to consider the implicit assumptions made when we decided upon the methodology to be followed: event studies. The latter finds immense support in the efficient market hypothesis, which states that the market stock prices vary efficiently and without bias upon the release of new information to the market. On this note, the choice of computing cumulative abnormal returns for a three-day and five-day event window is consistent with the literature but does not take into account the full reaction of the market stemming from the announcement. In fact, event studies have been the subject of many controversial statements when it comes to its validity as it does not include any proxy for value creation in the long-term. Nevertheless, even if some studies have recently been published and oppose this methodology, they tend to be controversial and do not survive over time.

Although having to keep these drawbacks in mind, efficient market hypothesis is still the best form of description of the price evolution of securities in capital markets. Besides, we are confident about the results of this analysis and believe they are substantial enough in order to be considered as valid.

7.2. FURTHER RESEARCH

There are many different sources of improvement that could refine the research on this topic. These include the limitations previously mentioned as well as other possible explanations on the sources of value gains for emerging market acquirers. First, there are other variables that could have been included and would help us explain other effects that we have not been able to capture in this study. These may include a more precise corporate governance indicator than the country's legal system, an indicator of the country's capital market development status, the tax system to be imposed, the maturity of the target and acquirer companies, or even the reasons behind the transaction. A similar comparative analysis as the one carried out here could then be performed in order to understand the differences between developed and emerging acquirers in emerging markets and recognize that they may have different roles and objectives in cross-border acquisitions. This would provide further justification on the differences in cumulative abnormal returns we have found in our sample.

In addition, the long-term impact these acquisitions have on emerging market acquirers deserves to be the object of further scrutiny. This may be especially significant in emerging markets due to greater information asymmetry but also weaker efficiency forms of financial capital markets. Notwithstanding that we have showed in this paper that emerging acquirers create value through acquisitions in other middle to high income developing countries, we should look at the operating performance shifts stemming from these acquisitions. Rather than only focusing on the returns to shareholders, we should also perform further analysis on the impacts these transactions have in all the company's stakeholders and hence better understand where there is value creation. Last but not least, a future topic of research could include an analysis of the specific characteristics of the targets that will provide higher abnormal returns to an emerging market acquirer compared to a developed market one.

The possible research paths presented in this section provide for complementary research on the one performed in this paper. We have looked at the stock market

reaction around the day of announcement of a cross-border acquisition and we are proposing to either deepen this analysis by the inclusion of other variables or look at other evaluators of corporate performance which will be more significant when addressing long-term improvements in performance. Although we acknowledge that these may provide different and even clashing conclusions, we believe they may complement each other in increasing the existing knowledge on emerging market acquirers in other emerging markets.

8. MANAGERIAL IMPLICATIONS

Cross-border acquisitions among emerging markets represent a recent phenomenon. One of the most common motives behind these M&A transactions is to seek growth and overcome the latecomer disadvantage when compared to developed market firms by tapping into other markets with fast economic growth and increasingly wealthy populations. Especially during this economic crisis situation, emerging market firms should take advantage of their local understanding and catch-up with developed market firms who now face the stagnation of their domestic economies.

The results of this study show positive market reactions to acquisitions performed by emerging market firms in other emerging economies. Finding support on the main assumption that markets integrate new information on an efficient manner and that there is an expectation of increased cash-flows due to the transaction, we may conclude that this will result in value creation for the acquirer.

The main managerial implications of this study are to have an impact on managers' decisions which will consequently affect not only shareholders but also the company in its entirety. For managers, cross-border acquisitions provide for a good and fast way of seeking growth by entering foreign markets. On the shareholders side, these decisions may be of special concern as it will have a critical impact on the company's future prospects and value creation. As such, factors affecting the outcome of a cross-border acquisition and how it translates into a success (value creation) or a failure (value destruction) may be critical to the company especially if we consider how these actions will affect and determine its future.

The results of this study show an enduring importance of the asymmetry of information in emerging markets which creates the need for acquirers to request majority control in order to surpass the lack of investor protection and avoid expropriation risk. This is especially significant in transactions involving only emerging countries as most often these have civil law systems with lower investor protection. Even for emerging acquirers from common law countries, we may identify that the difference in investor protection is not sufficient enough in order to justify a significant increase in abnormal returns due to the target bootstrapping itself to the acquirers' increased corporate governance. Secondly, managers should also keep in mind that the

larger the company they manage the more likely they are to overpay for their targets. This may be considered as a transfer of value from the acquirer to the target which would significantly decrease the value created for shareholders. This puts emerging acquirers in better conditions as they tend to be smaller and engage in smaller deals. These characteristics may be associated with the need from EM acquirers to internationalize earlier than traditionally expected according to the example given by developed acquirers. In fact managers should leverage on these characteristics to increase the value created for the company's shareholders. Moreover, if possible, managers should always prefer cash to any other mixed financing structures. The latter may provide emerging acquirers with an increase in abnormal returns of as much as 2.99%.

Lastly, this study aims to provide a new perspective in cross-border acquisitions performed by emerging market acquirers in emerging markets, namely we have tried to assess the different mixes in the characteristics that will provide for higher returns in these types of transactions. Managers from these companies should make their decisions knowing that the company is likely to endure higher value creation for its shareholders when they acquire majority control, are of smaller size and pay with cash.

9. CONCLUSION

This study focuses on the potential value created for emerging acquirers stemming from cross-border acquisitions in other emerging economies. For this we have analyzed the stock price reaction to 657 deals performed by such companies between 2002 and 2011.

Having per main assumption that markets are efficient in integrating new information into the value of securities, we conclude that EM acquirers incur significantly positive abnormal returns when targeting other emerging market nations. This is translated into value creation for shareholders. For this, we have used an event study methodology as we believe it provides the best form of description of the price evolution of securities in capital markets.

Using a three-day event window to compute our cumulative abnormal returns around the date of announcement, we find that acquisitions involving EM acquirers have significantly higher returns than those performed by DM firms. More specifically, on average, while emerging market acquirers incur positive returns of 0.97% developed market acquirers only make it to 0.67%. The difference between the latter and the former is of 0.3% and is statistically significant for a confidence level of 10%. We have also looked at the impact of the acquisition of majority control which further reinforced our previous statement. In this case the difference between emerging and developed acquirers reaches a value of 0.49% and becomes statistically significant for a confidence interval of 95%.

To test the robustness of our findings we included several control variables which were considered as having significant impact by the existing literature, as well as industry dummies. From this we concluded that both explanatory variables are strongly significant at 10%, 5% and 1% levels. Being an emerging acquirer will have an increase in abnormal returns between 0.30% and 1.11%. In addition, the acquisition of control will increase the value of abnormal returns between 0.52% and 0.79%. Although these may sound small, they tend to translate into large dollar-value gains.

Notwithstanding that in order to fully understand the sources of value gain for emerging market acquirers we would need to analyze not only the short-term impact on returns but also the long-term impact on the company, we remain confident about the

results of this study and their validity. However, by exploring this avenue on a further research we may exponentially increase the current knowledge on the performance of emerging market acquirers.

Lastly, this study provides important insights on several managerial implications for emerging market acquirers. Namely, before making a decision on whether to perform an acquisition, managers should know that they are more likely to have increased value creation if they are smaller, finance their transaction with cash and most importantly gain majority control.

10. BIBLIOGRAPHY

- Andrade, G., M. L. Mitchell, and E. Stafford. “New Evidence and Perspectives on Mergers.” *Journal of Economic Perspectives* 15, 2001: 103-120.
- Asquith, P., R.F. Bruner, and D.W. Mullins Jr. “The gains to bidding firms from merger.” *Journal of Financial Economics* 11, 1983: 121-139.
- Bayazitiva, D., M. Kahl, and R. Valkanov. “Value Creation Estimates Beyond Announcement Returns: Mega-Mergers versus Other Mergers.” *University of Carolina working paper*, 2012.
- Beechey, M., D. Gruen, and J. Vickery. *The Efficient Market Hypothesis: A Survey*. Reserve Bank of Australia, 2000.
- Beim, D. O., and C. W. Calomiris. *Emerging Financial Markets*. New York: McGraw-Hill, 2001.
- Bekaert, G., and C. R. Harvey. “Emerging markets finance.” *Journal of Empirical Finance* 10, 2003: 3–57.
- Bhagat, S., B. Bolton, and R Romano. “The promise and perils of corporate governance indices.” *Columbia Law Review* 108, 2008: 1803-1882.
- Bhagat, S., M. Dong, D. Hirshleifer, and R. Noah. “Do tender offers create value? New methods and evidence.” *Journal of Financial Economics* 76, 2005: 3-60.
- Bhagat, S., S. Malhotra, and P. Zhu. “Emerging country cross-border acquisitions: Characteristics, acquirer returns and cross-sectional determinants.” *Emerging Markets Review* 12, 2011: 250-271.
- Capron, L., and J.-C. Shen. “Acquisitions of private vs. public firms: private information, target selection, and acquirer returns.” *Strategic Management Journal* 28, 2007: 891-911.
- Chari, A., P. Ouimet, and L. Tesar. “Acquirer Gains in Emerging Markets.” *Oxford University Press*, 2009.
- Chari, A., P. Ouimet, and L. Tesar. “The Returns to Developed-Market Acquirers in Emerging Markets.” *Working paper series*, 2006.
- Chari, A., P. Ouimet, and L. Tesar. “The value of control in emerging markets.” *Review of Financial Studies* 23, 2010: 1471-1770.
- Claessens, S., S. Djankov, and L. Lang. “The Separation of Ownership and Control in East Asian Corporations.” *Journal of Financial Economics*, 58, 2000: 81-112.

- Collins, J., T.R. Holcomb, S.T. Certo, M.A. Hitt, and R.H. Lester. “Learning by doing: Cross-border mergers and acquisitions.” *Journal of Business Research* 62, 2009: 1329–1334.
- Corrado, C. “Event Studies: A Methodology Review.” *Accounting and Finance* 51, 2011: 207-234.
- Denis, D.J., D.K. Denis, and K. Yost. “Global diversification, industrial diversification and firm value.” *The Journal of Finance* 57, 2002: 1951-1979.
- Denis, D.K., and J.J. McConnell. “International Corporate Governance.” *Journal of Financial and Quantitative Analysis* 38, 2003: 1-36.
- Doidge, C., C.A. Karolyi, and R.M. Stulz. “Why do countries matter so much for corporate governance?” *Journal of Financial Economics* 86, 2007: 1-39.
- Dong, M., D. Hishleifer, S. Richardson, and S.H. Teoh. “Does investor misvaluation drive the takeover market?” *The Journal of Finance* 61, 2006: 725-762.
- Doukas, J. “Overinvestment, Tobin's Q and gains from foreign acquisitions.” *Journal of Banking and Finance* 19, 1995: 1285-1303.
- Doukas, J., and N.G. Travlos. “The effect of corporate multinationalism on shareholders' wealth: evidence from international acquisitions.” *The Journal of Finance* 43, 1988: 1161-1175.
- Duso, T., K. Gugler, and B. Yurtoglu. “Is the event study methodology useful for merger analysis? A comparison of stock market and accounting data.” *International Review of Law and Economics* 30, 2010: 168-192.
- Dyck, A., and L. Zingales. “The Private Benefits of Control.” *Journal of Finance* 59, 2004: 533-596.
- Eckbo, E., and K. Thorburn. “Gains to Bidder Firms Revisited: Domestic and Foreign Acquisitions in Canada.” *Journal of Finance and Quantitative analysis* 35, 2000.
- Fama, E., L. Fisher, M. Jensen, and R. Roll. “The Adjustment of Stock Prices to New Information.” *International Economic Review* 10, 1969: 1-21.
- Fama, E.F. “Efficient Capital Markets: A Review of Theory and Empirical Work.” *Journal of Finance* 25, 1970: 383-417.
- Financial Times. “The Long View: How Adventurous are Emerging markets.” 2006 йил 20-October.

- Fuller, K., J. Netter, and M. Stegemoller. “What Do Returns to Acquiring Firms Tell Us? Evidence from Firms That Make Many Acquisitions.” *The Journal of Finance* 57, 2002: 1763-1793.
- Georgopoulos, G.J. “Cross-border mergers and acquisitions: does the exchange rate matter? Some evidence of Canada.” *Canadian Journal of Economics* 41, 2008: 450-474.
- Guillén, Mauro F., and Esteban García-Canal. “The American Model of the Multinational firm and the "New" Multinationals from Emerging Economies.” *The Academy of Management Perspectives* 23, 2009: 23–35.
- Hanazaki, M., and Q. Liu. “Corporate Governance and Investment in East Asian Firms - Empirical Analysis of Family-Controlled Firms.” *Journal of Asian Economics*, 18, 2007: 76–97.
- Hart, O. *Firms, Contracts, and Financial Structure*. New York: Oxford University Press, 1995.
- Harvard Business School. “Detailed Introduction to Datastream.” *Baker Library / Bloomberg Center, Harvard Business School*. 2012.
<http://www.library.hbs.edu/helpsheets/datastreamdetail.html> (accessed 2012 йил 15-March).
- Healy, P.M., K.G. Palepu, and R.S. Ruback. “Does Corporate Performance Improve after Mergers?” *Journal of Financial Economics* 31, 1992: 135-175.
- Hope, O.-K., and W.B. Thomas. “Managerial Empire Building and Firm Disclosure.” *Journal of Accounting Research*, 2008: 591-626.
- Hope, O.-K., W.B. Thomas, and D. Vyas. “The Cost of Pride: Why do Firms from Developing Countries Bid Higher?” *Journal of International Business Studies* 42, 2011: 128-151.
- Jensen, M.C. “Agency costs of free cash flows, corporate finance, and takeovers.” *The American Economic Review* 76, 1986: 323-329.
- Jirapon, P., Y.S. Kim, W.N. Davidson, and M. Singh. “Corporate governance, shareholder rights and firm diversification: An empirical analysis.” *Journal of Banking and Finance* 30, 2006: 947-963.
- Jovanovic, B., and S. Braguinsky. “Bidder discounts and target premia in takeovers.” *American Economic Review* 94, 2004: 46–56.
- Karnani, A. “Dubious Values of International Acquisitions by Emerging Economy Firms: The Case of Indian Firms.” *Ross School of Business Working Paper 1140*, 2010.

- Kiyamaz, H. “Cross-border acquisitions of US financial institutions: impact of macroeconomic factors.” *Journal of Banking and Finance* 28, 2004: 1413-1439.
- La Porta, R., F. Lopez-de-Silanes, A. Shleifer, and R. Vishny. “Corporate ownership around the world.” *Journal of Finance* 54, 1999: 471-517.
- La Porta, R., F. Lopez-de-Silanes, A. Shleifer, and R. Vishny. “Investor protection and corporate governance.” *Journal of Financial Economics* 58, 2000: 3-27.
- La Porta, R., F. Lopez-de-Silanes, A. Shleifer, and R. Vishny. “Law and Finance.” *Journal of Political economy* 106, 1998: 1113-1155.
- La Porta, R., F. Lopez-de-Silanes, and A. Shleifer. “What works in securities laws?” *Journal of Finance* 61, 2006: 1-32.
- La Porta, Rafael, Florencio Lopez-de-Silanes, and Andrei Shleifer. “Corporate Ownership Around the World.” *Journal of Finance* 54, 1999: 471-517.
- Luo, Y., and R. L. Tung. “International Expansion of Emerging Market Enterprises: A Springboard Perspective.” *Journal of International Business Studies* 38, 2007: 481-498.
- Macquieira, C.P., W.L. Megginson, and L. Nail. “Wealth creation versus wealth redistributions in pure stock-for-stock mergers.” *Journal of Financial Economics* 48, 1998: 3-33.
- Malkiel, B. “The Efficient Market Hypothesis and Its Critics.” *The Journal of Economic Perspectives*, 17, 2003: 59-82.
- Manne, Henry G. “Mergers and the Market for Corporate Control.” *The Journal of Political Economy* 73, 1965: 110-120.
- Mantecon, T. “Mitigating risks in cross-border acquisitions.” *Journal of Banking and Finance* 33, 2009: 640-651.
- Martynova, M., and L. Renneboog. “Spillover of corporate governance standards in cross-border mergers and acquisitions.” *Journal of Corporate Finance* 14, 2008: 200-223.
- Martynova, M., and L. Renneboog. “What determines sources of transaction financing in corporate takeovers: costs of capital, agency costs or means of payment?” *Journal of Corporate Finance* 15, 2009: 290-315.
- McCardle, K.F., and S. Vishwanathan. “The direct entry versus takeover decision and stock price performance around takeovers.” *Journal of Business* 67, 1994: 1-43.

- Moeller, S.B., and F.P. Schlingemann. “Global diversification and bidder gains: a comparison between cross-border and domestic acquisitions.” *Journal of Banking and Finance* 29, 2005: 533-564.
- Moeller, S.B., F.P. Schlingemann, and R.M. Stulz. “Firm size and the gains from acquisitions.” *Journal of Financial Economics* 73, 2004: 201-228.
- Morck, R., A. Sleifer, and R.W. Vishny. “Do managerial objectives drive bad acquisitions?” *Journal of Finance* 45, 1990: 31-48.
- Morgan Stanley. *MSCI Emerging Markets Index*. 2011 йил June. http://www.msci.com/products/indices/country_and_regional/em/ (accessed 2012 йил April).
- Morrow, J.L., D.G. Sirmon, M.A. Hitt, and T.R. Holcomb. “Creating value in the face of declining performance: Firm strategies and organizational recovery.” *Strategic Management Journal* 28, 2007: 271-283.
- Nadolska, A., and H.G. Barkema. “Learning to internationalise: The pace and success of foreign acquisitions.” *Journal of International Business Studies* 38, 2007: 1170-1186.
- Pais, Catarina. “Value creation for target companies following Private-Equity Backed M&A.” *ESCP Europe Master Thesis*, 2011.
- Rossi, S., and P. Volpin. “Cross-country determinants of mergers and acquisitions.” *Journal of Financial Economics* 74, 2004: 277-304.
- Rothenbuecher, Juergen, and Joachim Von Hoyninguen-Huen. *The rise of Emerging Markets in Mergers and Acquisitions*. Chicago: A.T. Kearney, 2008.
- Sauvant, K., W. Maschek, and G. McAllister. “Foreign Direct Investment by Emerging Market Multinational Enterprises, the Impact of the Financial Crisis and Recession and Challenges Ahead.” *OECD Global Forum on International Investment*. OECD Investment Division, 2009.
- Serra, Ana Paula. “Event Study Tests: A brief survey.” *FEP Working Paper 117*, 2002.
- The Economist. “Emerging vs Developed Economies: Power Shift.” 2011 йил 4-August.
- —. “Ins and outs: Acronyms BRIC out all over.” 2008 йил 18-September.
- —. “The new titans.” 2006 йил 16-September.
- —. “Why the tail wags the dog.” 2011 йил 6-August.

- Thomson Reuters. “Datastream Global Equity Indices: User Guide.” 2008. http://thomsonreuters.com/content/financial/pdf/i_and_a/indices/datastream_global_equity_manual.pdf.
- —. “Statista: Volume of Mergers and Acquisitions Worldwide.” *Statista*. 2011 йил September. <http://www.statista.com/statistics/153735/volume-of-mergers-and-acquisitions-worldwide/> (accessed 2012 йил 26-January).
- UNCTAD. *World Investment Report 2000: Cross-border Mergers and Acquisitions and Development*. United Nations Conference on Trade and Development, New York and Geneva: United Nations, 2000.
- World Bank. “Country Income Groups (World Bank Classification).” *Chart Bin*. 2011 йил July. <http://chartsbin.com/view/2438> (accessed 2012 йил 08-February).
- —. “Multipolarity: The New World Economy.” *Global Development Horizons*. Washington D.C., 2011.

11. APPENDIX

Figure 5. Abnormal Returns of acquisitions in Emerging Markets

This graph represents the abnormal returns of developed (DM) and Emerging (EM) market acquirers in emerging economies. This reflects the tendency of CARs to be especially significant starting from -1 to +1. Thus, the study of the CAR(-1,+1) in our study allows for an analysis of the effects of the announcement of the deal as it captures most of the effects.

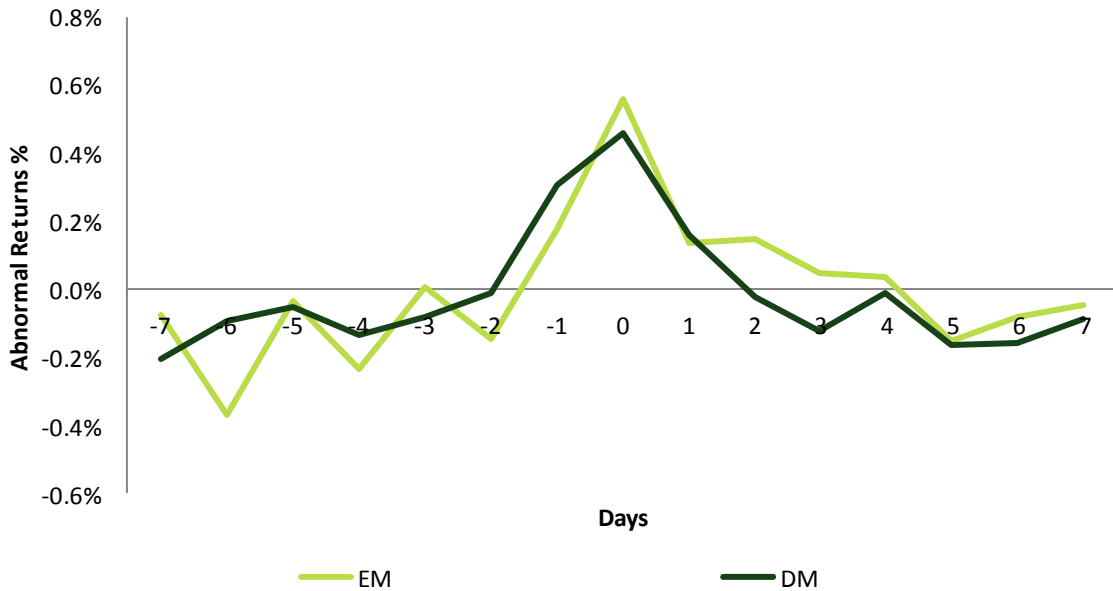


Figure 6. Volume of the total deals per year of announcement in billion USD (Full Sample)

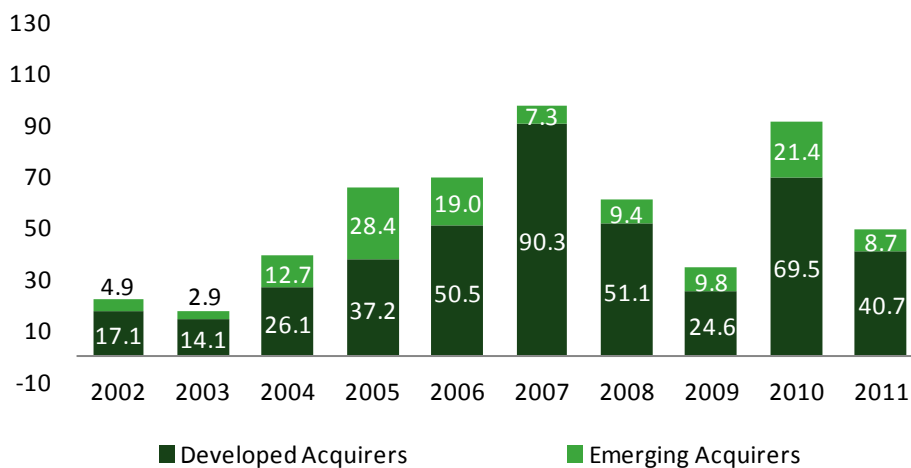


Figure 7. Break-down of Deals involving Developed Market Acquirers by number of deals per nation

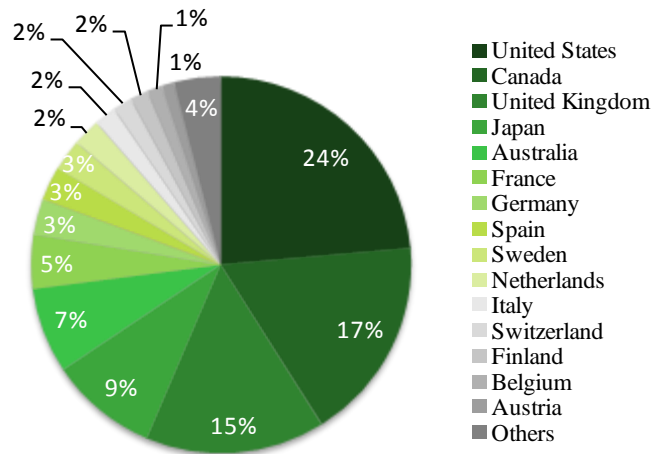


Figure 8. Break-down of Deals involving Emerging Market Acquirers by number of deals per nation

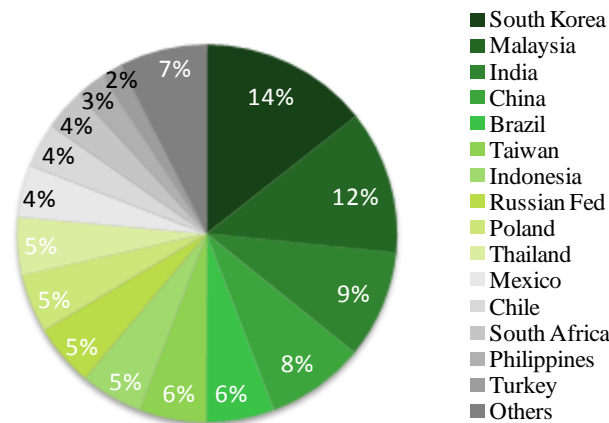


Figure 9. Break-down of Deals involving Emerging Market Targets by number of deals per nation

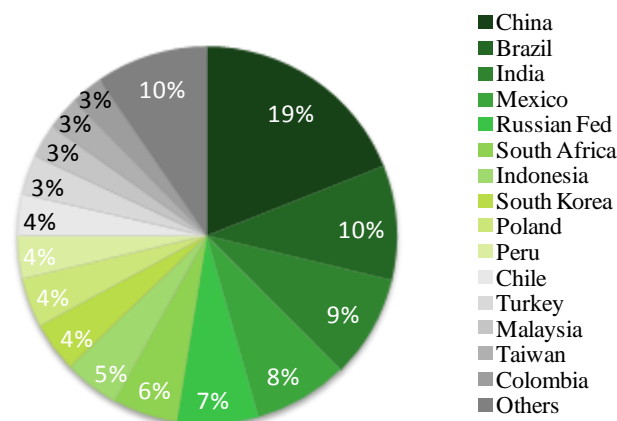


Table 11. Correlation of explanatory and control variables for the Full Sample

	EM	Control	Cash	Acq. mkt Cap	log (DV)	Period	Diversif.	Common Law Acq.	Language	Public tgt.
EM	1.00									
Control	-0.04	1.00								
Cash Percentage	0.10	-0.23	1.00							
Acquiror Markec Cap.	-0.22	-0.16	0.24	1.00						
Log (dealvalue)	-0.17	-0.03	0.03	0.65	1.00					
Year Period	0.07	0.03	-0.02	-0.10	-0.03	1.00				
Diversification	0.06	0.01	0.07	-0.01	-0.13	0.09	1.00			
Common Law Acquiror	-0.19	0.20	-0.19	-0.20	-0.16	-0.06	-0.02	1.00		
Language	0.34	0.06	0.05	-0.02	0.00	0.04	0.07	0.10	1.00	
Public Target	-0.01	-0.32	0.18	0.28	0.30	-0.15	-0.08	-0.21	0.09	1.00

Table 12. Correlation of explanatory and control variables Emerging Markets Sample

	EM	Control	Cash	Acq. mkt Cap	log (DV)	Period	Diversif.	Common Law Acq.	Language	Public tgt.
EM	1.00									
Control	-0.04	1.00								
Cash Percentage	0.10	-0.23	1.00							
Acquiror Markec Cap.	-0.22	-0.16	0.24	1.00						
Log (dealvalue)	-0.17	-0.03	0.03	0.65	1.00					
Year Period	0.07	0.03	-0.02	-0.10	-0.03	1.00				
Diversification	0.06	0.01	0.07	-0.01	-0.13	0.09	1.00			
Common Law Acquiror	-0.19	0.20	-0.19	-0.20	-0.16	-0.06	-0.02	1.00		
Language	0.34	0.06	0.05	-0.02	0.00	0.04	0.07	0.10	1.00	
Public Target	-0.01	-0.32	0.18	0.28	0.30	-0.15	-0.08	-0.21	0.09	1.00

Table 13. Summary statistics for the variable "Cash Percentage"

Break-down by emerging and developed market acquirers: T-test, sign-test, Wilcoxon rank-sum (Mann-Whitney) test and univariate regression. *, **, and *** denote the statistical significance of the coefficients at the 10%, 5%, and 1% levels, respectively.

Cash Percentage				
Full Sample				
	Emerging M.	Developed M.	Combined	Difference
Mean	93.59%	85.58%	18.07%	8.01%***
<i>p-value (t-test)</i>				(0.00)
Median	100%	100%	100%	0.00%***
<i>p-value (Wilcoxon test)</i>				(0.00)
Standard Deviation	20.03%	27.34%	25.93%	
Min	0.44%	0.00%	0.00%	
Max	100%	102%	102%	
1st percentile	4.67%	5.88%	5.88%	
99th percentile	100%	100%	100%	
Number of observations	255	765	1020	1020

Table 14. Summary statistics for the variable "Acquirer Market Capitalization"

Break-down by emerging and developed market acquirers: T-test, sign-test, Wilcoxon rank-sum (Mann-Whitney) test and univariate regression. *, **, and *** denote the statistical significance of the coefficients at the 10%, 5%, and 1% levels, respectively

Acquiror Market Capitalization (logarithmized)				
Full Sample				
	Emerging M.	Developed M.	Combined	Difference
Mean	2.83	3.13	3.05	- 0.29***
<i>p-value (t-test)</i>				(0.00)
Median	2.92	3.30	3.17	- 0.38***
<i>p-value (Wilcoxon test)</i>				(0.00)
Standard Deviation	1.07	1.31	1.26	
Min	-1.17	-3.00	-3.00	
Max	6.51	6.04	6.51	
1st percentile	0.44	-0.08	-0.08	
99th percentile	5.45	5.36	5.37	
Number of observations	553	1713	2266	

Table 15. Summary statistics for the variable "Deal Value"

Break-down by emerging and developed market acquirers: T-test, sign-test, Wilcoxon rank-sum (Mann-Whitney) test and univariate regression. *, **, and *** denote the statistical significance of the coefficients at the 10%, 5%, and 1% levels, respectively.

	Dealvalue (logarithmized)			
	Full Sample			
	Emerging M.	Developed M.	Combined	Difference
Mean	1.17	1.35	1.30	- 0.18***
<i>p-value (t-test)</i>				(0.00)
Median	1.22	1.35	1.31	- 0.13***
<i>p-value (Wilcoxon test)</i>				(0.00)
Standard Deviation	1.08	1.02	1.04	
Min	-3.00	-1.96	-3.00	
Max	3.75	4.18	4.18	
1st percentile	-2.00	-1.22	-1.52	
99th percentile	3.27	3.55	3.54	
Number of observations	657	1936	2593	2593

Table 16. Summary statistics for the variable "Common Law Acquirer" for Emerging Market Acquirers

Break-down by Common Law and Civil Law: T-test, sign-test, Wilcoxon rank-sum (Mann-Whitney) test and univariate regression. *, **, and *** denote the statistical significance of the coefficients at the 10%, 5%, and 1% levels, respectively.

	Common Law Acquiror			
	Emerging Markets Sample			
	Common Law	Civil Law	Combined	Difference
	CAR (-1,+1)	CAR (-1,+1)	CAR (-1,+1)	CAR (-1,+1)
Mean	0.93%	1.00%	0.97%	-0.07%
<i>p-value (t-test)</i>				(0.85)
Median	0.04%	0.20%	0.14%	-0.15%
<i>p-value (Wilcoxon test)</i>				(0.51)
Standard Deviation	4.57%	4.21%	4.33%	
Min	-8.41%	-8.44%	-8.44%	
Max	15.41%	14.89%	15.41%	
1st percentile	-7.40%	-7.37%	-7.40%	
99th percentile	13.64%	12.88%	13.64%	
Number of obs.	217	440	657	

Table 17. Summary statistics for the variable "Year Periods" for Emerging Market Acquirers

T-test, sign-test, Wilcoxon rank-sum (Mann-Whitney) test and univariate regression. *, **, and *** denote the statistical significance of the coefficients at the 10%, 5%, and 1% levels, respectively

	Year Periods			
	Emerging Markets Sample			
	2007-2011	2002-2006	Combined	Difference
	CAR (-1,+1)	CAR (-1,+1)	CAR (-1,+1)	CAR (-1,+1)
Mean	0.88%***	1.11%***	0.97%	0.23%
<i>p-value (t-test)</i>	(0.00)	(0.00)		(0.49)
Median	0.07%	0.17%	0.14%	0.10%
<i>p-value (Wilcoxon test)</i>				(0.36)
Standard Deviation	4.45%	4.15%	4.33%	
Min	-8.44%	-8.41%	-8.44%	
Max	14.89%	15.41%	15.41%	
1st percentile	-7.81%	-6.65%	-7.40%	
99th percentile	14.26%	13.64%	13.64%	
Number of obs.	385	272	657	

Table 18. Summary statistics for the variable "Diversification" for Emerging Market Acquirers

T-test, sign-test, Wilcoxon rank-sum (Mann-Whitney) test and univariate regression. *, **, and *** denote the statistical significance of the coefficients at the 10%, 5%, and 1% levels, respectively.

	Diversification			
	Emerging Markets Sample			
	Diversification	No Diversification	Combined	Difference
	CAR (-1,+1)	CAR (-1,+1)	CAR (-1,+1)	CAR (-1,+1)
Mean	0.96%	1.00%	0.97%	-0.04%
<i>p-value (t-test)</i>				(0.90)
Median	0.07%	0.18%	0.14%	-0.11%
<i>p-value (Wilcoxon test)</i>				(0.51)
Standard Deviation	4.58%		4.33%	
Min	-8.44%	-7.81%	-8.44%	
Max	15.41%	14.56%	15.41%	
1st percentile	-8.23%	-7.37%	-7.40%	
99th percentile	14.27%	11.77%	13.64%	
Number of obs.	371	286	657	

Table 19. Summary statistics for the variable "Public Target" for Emerging Market Acquirers

T-test, sign-test, Wilcoxon rank-sum (Mann-Whitney) test and univariate regression. *, **, and *** denote the statistical significance of the coefficients at the 10%, 5%, and 1% levels, respectively.

	Target Public Status			
	Emerging Markets Sample			
	Public	Non-Public	Combined	Difference
	CAR (-1,+1)	CAR (-1,+1)	CAR (-1,+1)	CAR (-1,+1)
Mean	0.93%	0.98%	0.97%	-0.05%
<i>p-value (t-test)</i>				(0.91)
Median	0.46%	0.12%	0.14%	0.34%
<i>p-value (Wilcoxon test)</i>				(0.65)
Standard Deviation	4.06%	4.39%	4.33%	
Min	-8.41%	-8.44%	-8.44%	
Max	14.56%	15.41%	15.41%	
1st percentile	-8.23%	-7.37%	-7.40%	
99th percentile	12.71%	13.64%	13.64%	
Number of obs.	125	532	657	

Déclaration sur l'honneur

Je, soussigné(e), **Maria Teresa Fernandes Guimarães Lobato**, certifie sur l'honneur que je n'ai rien plagié dans le travail ci-joint, ce qui signifie que je suis le seul auteur de toutes les phrases dont le texte est composé. Toute phrase ayant un autre auteur que moi a été mise entre guillemets, avec indication explicite de sa source. Je suis conscient(e) qu'en contrevenant à la présente règle je transgresse les principes académiques reconnus et m'expose aux sanctions qui seront prononcées par le conseil de discipline.

J'atteste également que ce travail n'a jamais été présenté dans le cadre d'études antérieures à ESCP Europe.

S'il s'agit d'un travail réalisé dans le cadre d'études effectuées en parallèle, je dois le préciser.

Les propos tenus dans ce mémoire n'engagent que moi-même.

Fait à Paris le 9 Mai 2012